UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2014

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________.

Commission file number: 000-54483

BankGuam Holding Company
(Exact name of registrant as specified in its charter)

Guam	**66-0770448**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

P.O. Box BW
Hagatna, Guam 96910
(671) 472-5300
(Address, including Zip Code, and telephone number, including area code, of the registrant's principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registration was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of March 31, 2014, the registrant had outstanding 8,807,525 shares of common stock.

BANKGUAM HOLDING COMPANY
FORM 10-Q
QUARTERLY REPORT

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- Exhibit 31.01 Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley At of 2002
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- Exhibit 101.INS XBRL Instance Document.
- Exhibit 101.SCH XBRL Taxonomy Extension Schema Document.
- Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- Exhibit 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

Cautionary Note Regarding Forward-Looking Statements

For purposes of this Quarterly Report, the terms the "Company," "we," "us" and "our" refer to BankGuam Holding Company and its subsidiaries. This Quarterly Report on Form 10-Q contains statements that are not historical in nature, are predictive in nature, or that depend upon or refer to future events or conditions or contain forward-looking statements within the meaning of Section 21 of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These include, among other things, statements regarding:

- Competition for loans and deposits and failure to attract or retain deposits and loans;
- Local, regional, national and global economic conditions and events, and the impact they may have on us and our customers, and our assessment of that impact on our estimates, including the allowance for loan losses;
- Risks associated with concentrations in real estate related loans;
- Changes in the level of nonperforming assets and charge-offs and other credit quality measures, and their impact on the adequacy of our allowance for loan losses and our provision for loan losses;
- The effects of and changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Federal Open Market Committee of the Federal Reserve Board;
- Stability of funding sources and continued availability of borrowings;
- The effect of changes in laws and regulations with which the Company and Bank of Guam must comply, including any increase in Federal Deposit Insurance Corporation insurance premiums;
- Our ability to raise capital or incur debt on reasonable terms;
- Regulatory limits on Bank of Guam's ability to pay dividends to the Company;
- The impact of the Dodd Frank Wall Street Reform and Consumer Protection Act and its implementing regulations;
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setting bodies;
- Changes in the deferred tax asset valuation allowance in future quarters;
- The costs and effects of legal and regulatory developments, including resolution of legal proceedings or regulatory or other governmental inquiries, and the results of regulatory examinations or reviews;
- The ability to increase market share and control expenses; and,
- Our success in managing the risks involved in the foregoing items,

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may be preceded by, followed by or include the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "will," "is designed to" and similar expressions. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about our business and the environment in which it operates that could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in "Risk Factors" included elsewhere in this Quarterly Report and as may be updated in filings we make from time to time with the U.S. Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for our fiscal year ended December 31, 2013, and our other Quarterly Reports on Form 10-Q filed by us in fiscal 2013. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or risks, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. New information, future events or risks could cause the forward-looking events we discuss in this Quarterly Report not to occur. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

The financial statements and the notes thereto begin on the next page.

BankGuam Holding Company
Unaudited Condensed Consolidated Statements of Condition
(in Thousands, Except Par Value)

	March 31, 2014	December 31, 2013
ASSETS		
Cash and due from banks	$ 21,579	$ 27,142
Federal Funds sold	5,000	5,000
Interest bearing deposits in banks	114,382	64,441
Total cash and cash equivalents	140,961	96,583
Restricted cash	400	400
Investment securities available for sale, at fair value	245,010	182,832
Investment securities held to maturity, at amortized cost	81,965	88,989
Federal Home Loan Bank stock, at cost	2,098	2,098
Loans, net of allowance for loan losses (3/31/14: $12,458 and 12/31/13: $12,077)	882,529	860,883
Accrued interest receivable	4,479	4,013
Premises and equipment, net	18,230	18,249
Goodwill	783	783
Other assets	28,665	28,178
Total assets	$ 1,405,120	$ 1,283,008
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 338,356	$ 321,408
Interest bearing	964,024	862,037
Total deposits	1,302,380	1,183,445
Accrued interest payable	160	164
Borrowings	0	0
Other liabilities	7,148	5,544
Total liabilities	1,309,688	1,189,153
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock $0.2083 par value; 48,000 shares authorized; 8,840 and 8,834 shares issued and 8,808 and 8,802 shares outstanding at 3/31/14 and 12/31/13, respectively	1,841	1,840
Additional paid-in capital	15,471	15,435
Retained earnings	82,602	81,570
Accumulated other comprehensive income	(4,192)	(4,700)
	95,722	94,145
Common stock in treasury, at cost (32 shares)	(290)	(290)
Total stockholders' equity	95,432	93,855
Total liabilities and stockholders' equity	$ 1,405,120	$ 1,283,008

The accompanying notes are an integral part of the condensed consolidated financial statements.

BankGuam Holding Company

Unaudited Condensed Consolidated Statements of Income

(Dollar and Share Amounts in Thousands, Except Per Share Data)

	Three months ended March 31,	
	2014	2013
Interest income:		
Loans	$ 14,938	$ 13,849
Investment securities	1,248	1,368
Federal Funds sold	2	2
Deposits with banks	43	57
Total interest income	16,231	15,276
Interest expense:		
Time deposits	54	58
Savings deposits	1,121	1,287
Other borrowed funds	0	80
Total interest expense	1,175	1,425
Net interest income	15,056	13,851
Provision for loan losses	900	975
Net interest income, after provision for loan losses	14,156	12,876
Non-interest income:		
Service charges and fees	1,109	1,009
Investment securities gains	0	207
Income from merchant services	529	533
Income from cardholders	107	515
Wire transfer fees	168	162
Trustee fees	53	120
Other income	502	473
Total non-interest income	2,468	3,019
Non-interest expenses:		
Salaries and employee benefits	6,517	5,514
Occupancy	1,673	1,573
Furniture and equipment	1,530	1,638
Professional Services	473	331
Insurance	418	415
Contract Services	368	330
Telecommunications	366	382
Federal Deposit Insurance Corporation assessment	256	276
Stationery & supplies	198	182
Education	126	235
Other real estate owned	5	904
General, administrative and other	1,692	1,428
Total non-interest expenses	13,622	13,208
Income before income taxes	3,002	2,687
Income tax expense	875	762
Net income	$ 2,127	$ 1,925
Earnings per share:		
Basic	$ 0.24	$ 0.22
Diluted	$ 0.24	$ 0.22
Dividends declared per share	$ 0.125	$ 0.125
Basic weighted average shares	8,802	8,783
Diluted weighted average shares	8,802	8,787

The accompanying notes are an integral part of the condensed consolidated financial statements.

BankGuam Holding Company

Unaudited Condensed Consolidated Statements of Comprehensive Income

(in Thousands)

	Three months ended March 31,	
	2014	2013
Net income	$ 2,127	$ 1,925
Other comprehensive income components, net of tax effects:		
Unrealized holding gain (loss) on available-for-sale securities arising during the period	488	(241)
Reclassification for gains (loss) realized on available-for-sale securities	0	(207)
Net change in unrealized holding loss on held-to-maturity securities during the period	20	34
Total other comprehensive gain (loss) income	508	(414)
Comprehensive income	$ 2,635	$ 1,511

The accompanying notes are an integral part of the condensed consolidated financial statements.

BankGuam Holding Company
Unaudited Condensed Consolidated Statement of Stockholders' Equity
(Dollar Amounts in Thousands)

	Number of Shares	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Income/(loss)	Retained Earnings	Treasury Stock	Total
Balances, December 31, 2013	8,802,115	$ 1,840	$15,435	$ (4,700)	$81,570	$ (290)	$93,855
Comprehensive income:							
Net income		0	0	0	2,127	0	2,127
Change in accumulated other comprehensive income:							
Unrealized loss on available-for-sale securities		0	0	508	0	0	508
Common stock issued under Employee Stock Option Plan	5,410	1	36	0	5	0	42
Cash dividends on common stock		0	0	0	(1,100)	0	(1,100)
Balances, March 31, 2014	8,807,525	$ 1,841	$15,471	$ (4,192)	$82,602	$ (290)	$95,432

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).

BankGuam Holding Company
Unaudited Condensed Consolidated Statements of Cash Flows
(in Thousands)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Cash flows from operating activities:		
Net income:	$ 2,127	$ 1,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	900	975
Depreciation and amortization	858	714
Amortization of fees, discounts and premiums	545	616
Write-down and gain on sales of other real estate owned, net	(13)	(13)
Proceeds from sales of loans held for sale	6,044	10,462
Origination of loans held for sale	(6,044)	(10,462)
(Increase) decrease in mortgage servicing rights	(63)	(20)
Realized gain on sale of available-for-sale securities	0	(207)
Net change in:		
Accrued interest receivable	(466)	(238)
Other assets	(979)	1,333
Accrued interest payable	(3)	9
Other liabilities	1,603	137
Net cash provided by operating activities	4,509	5,231
Cash flows from investing activities:		
Purchases of available-for-sale securities	(69,681)	(44,755)
Proceeds from sales of available-for-sale securities	0	52,162
Maturities, prepayments and calls of available-for-sale securities	7,549	10,956
Maturities, prepayments and calls of held-to-maturity securities	6,942	4,516
Loan originations and principal collections, net	(22,287)	(40,157)
Proceeds from sales of other real estate owned	308	205
Purchases of premises and equipment	(840)	(401)
Net cash used in investing activities	(78,009)	(17,474)
Cash flows from financing activities:		
Net increase in deposits	118,935	71,123
Payment of Federal Home Loan Bank advances	0	(10,000)
Proceeds from Federal Home Loan Bank stock redemption	0	20
Proceeds from other borrowings	0	0
Repayment of other borrowings	0	(105)
Proceeds from issuance of common stock	43	4
Dividends paid	(1,100)	(1,098)
Net cash provided by financing activities	117,878	59,944
Net change in cash and cash equivalents:	44,378	47,701
Cash and cash equivalents at beginning of period	96,583	74,189
Cash and cash equivalents at end of period	$140,961	$121,890
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,175	$ 1,425
Income taxes	$ 51	$ 77
Supplemental schedule of noncash investing and financing activities:		
Net change in unrealized loss on held-to-maturity securities, net of tax	$ 20	$ 34
Net change in unrealized (gain) loss on available-for-sale securities, net of tax	$ 488	$ (448)
Other real estate owned transferred from loans, net	$ 259	$ 439
Other real estate owned transferred to loans, net	$ 0	$ 0

The accompanying notes are an integral part of the condensed consolidated financial statements.

BankGuam Holding Company
Notes to Condensed Consolidated Financial Statements
(In thousands, except per share data)
(Unaudited)

Note 1 – Nature of Business

Organization

The accompanying condensed consolidated financial statements include the accounts of BankGuam Holding Company ("Company") and its wholly-owned subsidiary, Bank of Guam ("Bank"). The Company is a Guam corporation organized on October 29, 2010, to act as a holding company of the Bank, a Guam banking corporation, a 24-branch bank serving the communities in Guam, the Commonwealth of the Northern Mariana Islands (CNMI), the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), the Republic of Palau (ROP), and San Francisco, California. On August 15, 2011, the Company acquired all of the outstanding common stock of the Bank in a holding company formation transaction.

Other than holding the shares of the Bank, the Company conducts no significant activities, although it is authorized, with the prior approval of its principal regulator, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), to engage in a variety of activities related to the business of banking. Currently, substantially all of the Company's operations are conducted and substantially all of the assets are owned by the Bank, which accounts for substantially all of our consolidated revenues, expenses and operating income. The Bank provides a variety of financial services to individuals, businesses and governments through its branches. The Bank's headquarters is located in Hagåtña, Guam. The Bank currently has twelve branches in Guam, five in the CNMI, four in the FSM, one in the RMI, one in the ROP, and one in San Francisco, California. Its primary deposit products are demand deposits, savings and time certificate accounts, and its primary lending products are consumer, commercial and real estate loans.

For ease of reference we will sometimes refer to the Company as "we", "us" or "our".

Note 2 – Summary of Significant Accounting Policies and Recent Accounting Pronouncements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all footnotes that would be required for a full presentation of financial position, results of operations, changes in cash flows and comprehensive income in accordance with generally accepted accounting principles in the United States ("GAAP"). However, these interim financial statements reflect all adjustments (consisting of normal recurring adjustments and accruals) which, in the opinion of our management, are necessary for a fair presentation of our financial position and our results of operations for the interim periods presented. The condensed consolidated statement of condition as of March 31, 2014, was derived from the Company's audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

These unaudited condensed consolidated financial statements have been prepared on a basis consistent with prior periods, and should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2013, and the notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 on March 17, 2014.

Our consolidated financial position at March 31, 2014, and the consolidated results of operations for the three month period ended March 31, 2014, are not necessarily indicative of what our financial position will be as of December 31, 2014, or of the results of our operations that may be expected for the full year ending December 31, 2014.

The Company has evaluated events through the date at which these unaudited condensed consolidated financial statements are being filed with the Securities and Exchange Commission, for transactions and other events which may require adjustment of and/or disclosure in such financial statements.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of income and expenses during the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of other real estate owned, other than temporary impairment of securities and the fair value of financial instruments.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, "*Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*", which requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective lines in the entity's net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of ASU 2013-02 did not have a material impact on our consolidated financial condition or results of operations.

In January 2014 the FASB issued ASU 2014-04, "*Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon* Foreclosure" which clarifies the timing of when a creditor is considered to have taken physical possession of residential real estate collateral for a consumer mortgage loan, resulting in the reclassification of the loan receivable to real estate owned. A creditor has taken physical possession of the property when either (1) the creditor obtains legal title through foreclosure, or (2) the borrower transfers all interests in the property to the creditor via a deed in lieu of foreclosure or a similar legal agreement. The Update also requires disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in residential real estate mortgage loans that are in process of foreclosure. This guidance is effective for interim and annual periods beginning after December 15, 2014. We plan to adopt this guidance on January 1, 2015, and do not expect that it will have a material impact on our financial statement presentation.

In July 2013, the FASB issued ASU 2013-11, "*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*", which amended its guidance on income taxes to eliminate diversity in the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments clarify whether unrecognized tax benefits should be presented as a liability on the balance sheet or as a reduction of a deferred tax asset. This guidance is effective for interim and annual periods beginning after December 15, 2013. Early adoption is permitted. We adopted this guidance on January 1, 2014, and it did not have a material impact on our financial statement presentation.

Note 3 – Earnings Per Common Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to shares subscribed but not yet issued in 2014 under the Employee Stock Purchase Plan, and are reported as dilutive options.

Earnings per common share have been computed based on reported net income and the following share data:

	For the Three Months Ended March 31,	
	2014	**2013**
Net income available for common stockholders	$ 2,127	$ 1,925
Weighted average number of common shares outstanding	8,802	8,783
Effect of dilutive options	0	4
Weighted average number of common shares outstanding used to calculate diluted earnings per common share	8,802	8,787
Income per common share:		
Basic	$ 0.24	$ 0.22
Diluted	$ 0.24	$ 0.22

Under the 2011 Employee Stock Purchase Plan, eligible employees can purchase, through payroll deductions, shares of common stock at a discount. The right to purchase stocks is granted to eligible employees during a period of time that is established from time to time by the Board of Directors of the Company. Eligible employees cannot accrue the right to purchase more than $25 thousand worth of stock at the fair market value at the beginning of each offer period. Eligible employees also may not purchase more than one thousand five hundred (1,500) shares of stock in any one offer period. The shares are purchased at 85% of the fair market price of the stock on the enrollment date.

Note 4 – Investment Securities

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, follows:

	March 31, 2014			
	Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Securities Available for Sale				
U.S. government agency and sponsored enterprise (GSE) debt securities	$ 25,310	$ (14)	$ 0	$ 25,296
U.S. government agency pool securities	51,674	(698)	118	51,094
U.S. government agency or GSE mortgage-backed securities	169,856	(1,484)	248	168,620
Total	$246,840	$ (2,196)	$ 366	$245,010
Securities Held to Maturity				
U.S. government agency and sponsored enterprise (GSE) debt securities	$ 27,959	$ (35)	$ 176	$ 28,100
U.S. government agency pool securities	1,607	(12)	25	1,620
U.S. government agency or GSE mortgage-backed securities	52,399	(409)	1,012	53,002
Total	$ 81,965	$ (456)	$ 1,213	$ 82,722

	December 31, 2013			
	Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Securities Available for Sale				
U.S. government agency pool securities	$ 54,733	$ (563)	$ 122	$ 54,292
U.S. government agency or GSE mortgage-backed securities	130,411	(1,983)	112	128,540
Total	$185,144	$ (2,546)	$ 234	$182,832
Securities Held to Maturity				
U.S. government agency and sponsored enterprise (GSE) debt securities	$ 32,824	$ (515)	$ 0	$ 32,309
U.S. government agency pool securities	1,641	(12)	24	1,653
U.S. government agency or GSE mortgage-backed securities	54,524	(586)	920	54,858
Total	$ 88,989	$ (1,113)	$ 944	$ 88,820

At March 31, 2014, and December 31, 2013, investment securities with a carrying value of $190.2 million and $170.5 million, respectively, were pledged to secure various government deposits and other public requirements.

The amortized cost and fair value of investment securities by contractual maturity at March 31, 2014, and December 31, 2013, are shown below. Securities not due at a single maturity date, such as agency pool securities and mortgage-backed securities, are shown separately.

	March 31, 2014			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after one but within five years	$ 25,310	$ 25,296	$ 0	$ 0
Due after five years	0	0	27,959	28,100
U.S. Government agency pool securities	51,674	51,094	1,607	1,620
Mortgage-backed securities	169,856	168,620	52,399	53,002
Total	$ 246,840	$245,010	$ 81,965	$ 82,722

	December 31, 2013			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after one but within five years	$ 0	$ 0	$ 0	$ 0
Due after five years	0	0	32,824	32,309
U.S. Government agency pool securities	54,733	54,292	1,641	1,653
Mortgage-backed securities	130,411	128,540	54,524	54,858
Total	$ 185,144	$182,832	$ 88,989	$ 88,820

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2014, and December 31, 2013.

	March 31, 2014					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Securities Available for Sale						
U.S. government agency and sponsored enterprise (GSE) debt securities	$ (14)	$ 5,986	$ 0	$ 0	$ (14)	$ 5,986
U.S. government agency pool securities	(233)	11,479	(465)	30,051	(698)	41,530
U.S. government agency or GSE mortgage-backed securities	(1,432)	112,188	(52)	9,891	(1,484)	122,079
Total	$ (1,679)	$ 129,653	$ (517)	$ 39,942	$ (2,196)	$169,595
Securities Held to Maturity						
U.S. government agency and sponsored enterprise (GSE) debt securities	$ (35)	$ 4,643	$ 0	$ 0	$ (35)	$ 4,643
U.S. government agency pool securities	(4)	169	(8)	415	(12)	584
U.S. government agency or GSE mortgage-backed securities	(239)	10,925	(170)	7,433	(409)	18,358
Total	$ (278)	$ 15,737	$ (178)	$ 7,848	$ (456)	$ 23,585

	December 31, 2013					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Securities Available for Sale						
U.S. government agency pool securities	$ (505)	$ 42,298	$ (58)	$ 4,843	$ (563)	$ 47,141
U.S. government agency or GSE mortgage-backed securities	(1,957)	108,637	(26)	5,606	(1,983)	114,243
	$ (2,462)	$ 150,935	$ (84)	$ 10,449	$ (2,546)	$161,384
Securities Held to Maturity						
U.S. government agency and sponsored enterprise (GSE) debt securities	$ (515)	$ 32,309	$ 0	$ 0	$ (515)	$ 32,309
U.S. government agency pool securities	(8)	304	(4)	284	(12)	588
U.S. government agency or GSE mortgage-backed securities	(586)	18,770	0	0	(586)	18,770
Total	$ (1,109)	$ 51,383	$ (4)	$ 284	$ (1,113)	$ 51,667

The investment securities that were in an unrealized loss position as of March 31, 2014, which comprised a total of 58 securities, were not other-than-temporarily impaired. Specifically, the 58 securities are comprised of the following: 18 Small Business Administration (SBA) Pool securities, 21 mortgage-backed securities issued by the Government National Mortgage Association (GNMA), 14 mortgage-backed securities and 1 U.S. Government Agency Bond issued by the Federal National Mortgage Association (FNMA) , 3 mortgage-backed securities issued by the Federal Home Loan Corporation (FHLMC), and 1 U.S. Government Agency Bond issued by the Federal Home Loan Bank (FHLB).

Total gross unrealized losses were primarily attributable to changes in market interest rates, relative to when the investment securities were purchased, and not due to any change in the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not likely that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

Note 5 – Loans Held for Sale, Loans and Allowance for Loan Losses

Loans Held for Sale

In its normal course of business, the Bank originates mortgage loans held for sale for the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"). The Bank has elected to measure its residential mortgage loans held for sale at the lower of cost or market. Origination fees and costs are recognized in earnings at the time of origination for newly originated loans held for sale, and the loans are sold to Freddie Mac at par, so there is no gain or loss reported in earnings.

During the three months ended March 31, 2014, the Bank has originated approximately $6.0 million and sold approximately $6.0 million.

Mortgage Servicing Rights

Mortgage loans serviced for others are not included in the accompanying condensed consolidated statements of condition. The unpaid principal balances of mortgage loans serviced for others were $211.5 million and $208.6 million at March 31, 2014, and December 31, 2013, respectively.

We sometimes retain mortgage servicing rights on mortgage loans that we sell. Such rights represent the net positive cash flows generated from the servicing of such mortgage loans and we recognize such rights as assets on our statements of financial condition based on their estimated fair values. We receive servicing fees, less any subservicing costs, on the unpaid principal balances of such mortgage loans. Those fees are collected from the monthly payments made by the mortgagors or from the proceeds of the sale or foreclosure and liquidation of the underlying real property collateralizing the loans. At March 31, 2014 and December 31, 2013, mortgage servicing rights totaled $1.42 million and $1.35 million, respectively, and are included in other assets in the accompanying consolidated statements of condition.

The Bank accounts for mortgage servicing rights at fair value with changes in fair value recorded in the consolidated statements of income.

Loans

Outstanding loan balances are presented net of unearned income, deferred loan fees, and unamortized discount and premium. Loans subject to ASC 310-30 are presented net of the related accretable yield and nonaccretable difference.

The loan portfolio consisted of the following at:

	March 31, 2014		December 31, 2013	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial				
Commercial & industrial	$194,936	21.7%	$183,364	21.0%
Commercial mortgage	386,586	43.1%	380,454	43.4%
Commercial construction	1,340	0.1%	697	0.1%
Total commercial	582,862	64.9%	564,515	64.5%
Consumer				
Residential mortgage	149,803	16.7%	152,757	17.5%
Home equity	1,008	0.1%	1,039	0.1%
Automobile	9,568	1.1%	7,269	0.8%
Other consumer loans [1]	153,869	17.2%	149,593	17.1%
Total consumer	314,248	35.1%	310,658	35.5%
Gross loans	897,110	100.0%	875,173	100.0%
Deferred fee income, net	(2,123)		(2,213)	
Allowance for loan losses	(12,458)		(12,077)	
Loans, net	$882,529		$860,883	

1 Comprised of other revolving credit, installment loans, and overdrafts.

At March 31, 2014, total gross loans increased by $21.9 million to $897.1 million from $875.2 million at December 31, 2013. The increase in loans was largely attributed to a $18.4 million increase in commercial loans to $582.9 million at March 31, 2014, from $564.5 million at December 31, 2013. The increase in commercial loans was due to the $11.6 million growth in the commercial &

industrial loan portfolio, supplemented by the $6.1 million increase in commercial mortgage loans and the $643 thousand increase in commercial construction loans. There was a $3.6 million increase in consumer loans to $314.2 million at March 31, 2014, up from $310.7 million at December 31, 2013. The increases in consumer loans were due to the $4.3 million rise in other consumer loans and the $2.3 million increase in automobile loans, with this latter increase due to new dealer loan bookings and promotional programs.

Allowance for Loan Losses

The allowance for loan losses is evaluated on a quarterly basis by Bank management, and is based upon management's periodic review of the collectability of loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available or conditions change.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. ASC 310-10 defines an impaired loan as one for which there is uncertainty concerning collection of all principal and interest per the contractual terms of the loan. For those loans that are classified as impaired, an allowance is established when the discounted cash flow (or the collateral value or the observable market price) of the impaired loan is lower than the carrying value of the loan. The general component covers unimpaired loans, and is estimated using a loss migration analysis based on historical charge-off experience and expected loss, given the default probability derived from the Bank's internal risk rating process. The loss migration analysis tracks a certain number of quarters of loan loss history and industry loss factors to determine historical losses by classification category for each loan type, except certain consumer loans. These calculated loss factors are then applied to outstanding loan balances for all loans on accrual designated as "Pass," "Special Mention," "Substandard" or "Doubtful" ("classified loans" or "classification categories"). Additionally, a qualitative factor that is determined utilizing external economic factors and internal assessments is applied to each homogeneous loan pool. We also conduct individual loan review analyses, as part of the allowance for loan loss allocation process, applying specific monitoring policies and procedures in analyzing the existing loan portfolio.

Credit Quality Indicators

The Bank uses several credit quality indicators to manage credit risk, including an internal credit risk rating system that categorizes loans into pass, special mention, substandard, doubtful or loss categories. Credit risk ratings are applied individually to those classes of loans that have significant or unique credit characteristics and that benefit from a case-by-case evaluation. These are typically loans to businesses or individuals in the classes which comprise the commercial portfolio segment. Groups of loans that are underwritten and structured using standardized criteria and characteristics, such as statistical models (e.g., credit scoring or payment performance), are typically risk-rated and monitored collectively. These are typically loans to individuals in the classes which comprise the consumer portfolio segment.

The following are the definitions of the Bank's credit quality indicators:

Pass (A): *Exceptional:* Essentially risk-free credit. These are loans of the highest quality that pose virtually no risk of loss to the Bank. This includes loans fully collateralized by means of a savings account(s) and time certificate(s) of deposit, and by at least 110% of the loan amount. Borrowers should have strong financial statements, good liquidity and excellent credit.

Pass (B): *Standard:* Multiple "strong sources of repayment". These are loans to strong borrowers with a demonstrated history of financial and managerial performance. The risk of loss is considered to be low. Loans are well-structured, with clearly identified primary and readily available secondary sources of repayment. These loans may also be secured by an equal amount of funds in a savings account or time certificate of deposit. These loans may be secured by marketable collateral whose value can be reasonably determined through outside appraisals. The borrower characteristically has a very strong cash flow and relatively low leverage.

Pass (C): *Acceptable:* "Good" primary and secondary sources of repayment. These are loans to borrowers of average financial strength, stability and management expertise. The borrower should be a well-established individual or company with adequate financial resources to withstand short-term fluctuations in the marketplace. The borrower's financial ratios and trends are favorable. The loans may be unsecured or supported by non-real estate collateral for which the value is more difficult to determine, represent a reasonable credit risk and require an average amount of account officer attention. The borrower's ability to repay unsecured credit is to be of unquestionable strength.

Pass (D): *Monitor:* "Sufficient" primary source of repayment and an acceptable secondary source of repayment. Acceptable business or individual credit, but the borrower's operations, cash flow or financial conditions evince average levels of risk. These loans are considered to be collectable in full, but may require a greater-than-average amount of loan officer attention. Borrowers are capable of absorbing normal setbacks without failing to meet the terms of the loan agreement.

Special Mention: A Special Mention asset has potential weaknesses that deserve close monitoring. These potential weaknesses may result in a deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. The Special Mention classification should neither be a compromise between a pass grade and substandard, nor should it be a "catch all" grade to identify any loan that has a policy exception.

Substandard: A substandard asset is inadequately protected by the current sound worth and payment capacity of the obligor or the collateral pledged. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Assets classified as substandard are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Formula Classified: Formula classified loans are all loans and credit cards delinquent 90 days and over which have yet to be formally classified Special Mention, Substandard or Doubtful by the Bank's Loan Committee. In most instances, the monthly formula

total is comprised primarily of real estate loans, consumer loans and credit cards. Commercial loans are typically formally classified by the Loan Committee no later than their 90-day delinquency, and thus do not become part of the formula classification. Real estate loans 90-days delinquent are in the foreclosure process, which is typically completed within another 60 days, and thus are not formally classified during this period.

Doubtful: A loan with weaknesses well enough defined that eventual repayment in full, on the basis of currently existing facts, conditions and values, is highly questionable, even though certain factors may be present which could improve the status of the loan. The probability of some loss is extremely high, but because of certain known factors that may work to the advantage of strengthening of the assets (i.e. capital injection, perfecting liens on additional collateral, refinancing plans, etc.), its classification as an estimated loss is deferred until its more exact status can be determined.

Loss: Loans classified as "Loss" are considered uncollectible, and are either unsecured or are supported by collateral that is of little to no value. As such, their continuance as recorded assets is not warranted. While this classification does not mandate that a loan has no ultimate recovery value, losses should be taken in the period during which these loans are deemed to be uncollectible. Loans identified as loss are immediately approved for charge-off. The Bank may refer loans to outside collection agencies, attorneys, or its internal collection division to continue collection efforts. Any subsequent recoveries are credited to the Allowance for Loan Losses.

Set forth below is a summary of the Bank's activity in the allowance for loan losses during the three months ended March 31, 2014, and the year ended December 31, 2013:

	Three Months Ended March 31, 2014	Year Ended December 31, 2013
	(Dollars in thousands)	
Balance, beginning of period	$ 12,077	$ 12,228
Provision for loan losses	900	2,095
Recoveries on loans previously charged off	449	1,814
Charged off loans	(968)	(4,060)
Balance, end of period	$ 12,458	$ 12,077

Set forth below is information regarding loan balances and the related allowance for loan losses, by portfolio type, for the three-month period ended March 31, 2014, and the year ended December 31, 2013, respectively.

	Commercial	Residential Mortgages	Consumer	Total
	(Dollars in thousands)			
Three Months Ended March 31, 2014				
Allowance for loan losses:				
Balance at beginning of quarter	$ 5,987	$ 922	$ 5,168	$ 12,077
Charge-offs	(158)	(18)	(792)	(968)
Recoveries	155	2	292	449
Provision	265	(211)	846	900
Balance at end of quarter	$ 6,249	$ 695	$ 5,514	$ 12,458
Allowance balance at end of quarter related to:				
Loans individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0
Loans collectively evaluated for impairment	$ 6,249	$ 695	$ 5,514	$ 12,458
Loan balances at end of quarter:				
Loans individually evaluated for impairment	9,970	7,666	157	17,793
Loans collectively evaluated for impairment	572,892	143,145	163,280	879,317
Ending Balance	$ 582,862	$150,811	$163,437	$897,110
Year Ended December 31, 2013				
Allowance for loan losses:				
Balance at beginning of year	$ 6,251	$ 1,453	$ 4,524	$ 12,228
Charge-offs	(470)	(168)	(3,422)	(4,060)
Recoveries	116	143	1,555	1,814
Provision	90	(506)	2,511	2,095
Balance at end of year	$ 5,987	$ 922	$ 5,168	$ 12,077
Allowance balance at end of year related to:				
Loans individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0
Loans collectively evaluated for impairment	$ 5,987	$ 922	$ 5,168	$ 12,077
Loan balances at end of year:				
Loans individually evaluated for impairment	$ 10,239	$ 6,412	$ 195	$ 16,846
Loans collectively evaluated for impairment	554,276	147,384	156,667	858,327
Ending Balance	$ 564,515	$153,796	$156,862	$875,173

Impairment is measured on a loan-by-loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral (if the loan is collateral-dependent). Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment. The Bank performs direct write-downs of impaired loans with a charge to the allocated component of the allowance, therefore reducing the allocated component of the allowance to zero at the end of each reporting period.

Credit Quality

The following table provides a summary of the delinquency status of the Bank's loans by portfolio type:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans Outstanding
			(Dollars in thousands)			
March 31, 2014						
Commercial						
Commercial & industrial	$ 1,758	$ 64	$ 284	$ 2,106	$192,830	$ 194,936
Commercial mortgage	1,058	301	993	2,352	384,234	386,586
Commercial construction	0	0	0	0	1,340	1,340
Total commercial	2,816	365	1,277	4,458	578,404	582,862
Consumer						
Residential mortgage	14,540	5,105	3,804	23,449	126,354	149,803
Home equity	56	0	0	56	952	1,008
Automobile	98	10	0	108	9,460	9,568
Other consumer [1]	2,654	992	1,096	4,742	149,127	153,869
Total consumer	17,348	6,107	4,900	28,355	285,893	314,248
Total	$ 20,164	$ 6,472	$ 6,177	$ 32,813	$864,297	$ 897,110
December 31, 2013						
Commercial						
Commercial & industrial	$ 159	$ 191	$ 217	$ 567	$182,797	$ 183,364
Commercial mortgage	201	771	4,659	5,631	374,823	380,454
Commercial construction	0	0	0	0	697	697
Total commercial	360	962	4,876	6,198	558,317	564,515
Consumer						
Residential mortgage	10,663	4,742	3,887	19,292	133,465	152,757
Home equity	0	0	0	0	1,039	1,039
Automobile	178	13	13	204	7,065	7,269
Other consumer [1]	2,143	1,215	993	4,351	145,242	149,593
Total consumer	12,984	5,970	4,893	23,847	286,811	310,658
Total	$ 13,344	$ 6,932	$ 9,769	$ 30,045	$845,128	$ 875,173

[1] Comprised of other revolving credit, installment loans, and overdrafts.

Generally, the accrual of interest on a loan is discontinued when principal or interest payments become more than 90 days past due, unless management believes the loan is adequately collateralized and is in the process of collection. When a loan is placed on non-accrual status, previously accrued but unpaid interest is reversed against current income. Subsequent collections of cash are applied as principal reductions when received, except when the ultimate collectability of principal is probable, in which case interest payments are credited to income. Non-accrual loans may be restored to accrual status when principal and interest become current and full repayment is expected. The following table provides information as of March 31, 2014, and December 31, 2013, with respect to loans on non-accrual status, by portfolio type:

	March 31, 2014	December 31, 2013
	(Dollars in thousands)	
Non-accrual loans:		
Commercial		
Commercial & industrial	$ 338	$ 343
Commercial mortgage	6,121	6,344
Commercial construction	0	0
Total commercial	6,459	6,687
Consumer		
Residential mortgage	6,913	6,351
Home equity	57	62
Automobile	0	0
Other consumer [1]	157	195
Total consumer	7,127	6,608
Total non-accrual loans	$ 13,586	$ 13,295

[1] Comprised of other revolving credit, installment loans, and overdrafts.

The Bank classifies its loan portfolios using internal credit quality ratings, as discussed above under *Allowance for Loan Losses*. The following table provides a summary of loans by portfolio type and the Bank's internal credit quality ratings as of March 31, 2014, and December 31, 2013.

	March 31, 2014	December 31, 2013	Increase (Decrease)
		(Dollars in thousands)	
Pass:			
Commercial & industrial	$ 183,612	$ 170,388	$ 13,224
Commercial mortgage	358,312	349,906	8,406
Commercial construction	1,340	697	643
Residential mortgage	145,144	148,825	(3,681)
Home equity	1,008	1,039	(31)
Automobile	9,568	7,256	2,312
Other consumer	152,951	148,757	4,194
Total pass loans	$ 851,935	$ 826,868	$ 25,067
Special Mention:			
Commercial & industrial	$ 7,632	$ 9,571	$ (1,939)
Commercial mortgage	18,197	20,850	(2,653)
Commercial construction	0	0	0
Residential mortgage	0	0	0
Home equity	0	0	0
Automobile	0	0	0
Other consumer	0	0	0
Total special mention loans	$ 25,829	$ 30,421	$ (4,592)
Substandard:			
Commercial & industrial	$ 3,580	$ 3,360	$ 220
Commercial mortgage	9,988	9,384	604
Commercial construction	0	0	0
Residential mortgage	334	76	258
Home equity	0	0	0
Automobile	0	0	0
Other consumer	0	0	0
Total substandard loans	$ 13,902	$ 12,820	$ 1,082
Formula Classified:			
Commercial & industrial	$ 111	$ 45	$ 66
Commercial mortgage	89	314	(225)
Commercial construction	0	0	0
Residential mortgage	4,325	3,856	469
Home equity	0	0	0
Automobile	0	13	(13)
Other consumer	919	836	83
Total formula classified loans	$ 5,444	$ 5,064	$ 380
Doubtful:			
Commercial & industrial	$ 0	$ 0	$ 0
Commercial mortgage	0	0	0
Commercial construction	0	0	0
Residential mortgage	0	0	0
Home equity	0	0	0
Automobile	0	0	0
Other consumer	0	0	0
Total doubtful loans	$ 0	$ 0	$ 0
Total outstanding loans, gross	$ 897,110	$ 875,173	$ 21,937

As the above table indicates, the Bank's total loans approximated $897.1 million at March 31, 2014, up from $875.2 million at December 31, 2013. The disaggregation of the portfolio by risk rating in the table reflects the following changes between March 31, 2014, and December 31, 2013:

- Loans rated "pass" increased by $25.1 million to $851.9 million at March 31, 2014, up from $826.9 million at December 31, 2013. The increase is primarily in commercial & industrial loans, which grew by $13.2 million, and commercial mortgage loans, which increased by $8.4 million. This is due to various large loans originated in the California region and in Guam. There was also an increase of $4.2 million in other consumer loans and $2.3 million more in automobile loans. The increases were primarily due to new dealer loan bookings and promotional programs. These were offset by a decrease in residential mortgages, which fell by $3.7 million due to loan payoffs and paydowns.
- The "special mention" category was $4.6 million lower at March 31, 2014 than at December 31, 2013. This is attributed to a drop in special mention commercial mortgage loans of $2.7 million, which was due to the upgrade of two loan relationship totaling $6.2 million from "special mention": to "pass". In addition, "special mention" commercial & industrial loans decreased by $1.9 million as a result of $2.1 million in loan payoffs and the downgrade of a $234 thousand loan relationship from "special mention" to "substandard".
- Loans classified "substandard" increased by $1.1 million to $13.9 million at March 31, 2014, from $12.8 million at December 31, 2013. The increase was mainly in commercial mortgage loans due to the downgrade of a $400 thousand loan relationship from "pass" to "substandard" and two loan relationships totaling $436 thousand from "special mention" to "substandard". Additionally, "substandard" residential mortgage loans increased by $258 thousand due to the reclassification of a $261 thousand loan relationship from "pass" to "substandard". Lastly, "substandard" commercial & industrial loans increased by $220 thousand due to the downgrade of a $234 thousand loan relationship from "special mention" to "substandard".
- The "formula classified" category increased by $380 thousand, primarily due to additional residential mortgage loans falling into this category.
- There were no loans classified as "doubtful" at either March 31, 2014, or December 31, 2013.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impaired loans include loans that are in non-accrual status and other loans that have been modified in Troubled Debt Restructurings (TDRs, where economic concessions have been granted to borrowers experiencing financial difficulties). These concessions typically result from the Bank's loss mitigation actions, and could include reductions in the interest rate, payment extensions, forbearance, or other actions taken with the intention to maximize collections.

The following table sets forth information regarding non-accrual loans and restructured loans, at March 31, 2014, and December 31, 2013:

	March 31, 2014	December 31, 2013
	(Dollars in thousands)	
Impaired loans:		
Restructured loans:		
Non-accruing restructured loans	$ 5,394	$ 5,554
Accruing restructured loans	4,207	3,551
Total restructured loans	9,601	9,105
Other non-accruing impaired loans	8,192	7,741
Other accruing impaired loans	0	0
Total impaired loans	$ 17,793	$ 16,846
Impaired loans less than 90 days delinquent and included in total impaired loans	$ 12,888	$ 7,967

The table below contains additional information with respect to impaired loans, by portfolio type, for the years ended March 31, 2014, and December 31, 2013:

	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
March 31, 2014, With no related allowance recorded:				
Commercial & industrial	$ 3,442	$ 3,629	$ 3,448	$ 20
Commercial mortgage	6,528	8,274	6,642	0
Commercial construction	0	0	0	0
Residential mortgage	7,609	7,725	7,458	(264)
Home equity	57	57	58	0
Automobile	0	0	0	0
Other consumer	157	166	180	0
Total impaired loans with no related allowance	$ 17,793	$19,851	$ 17,786	$ (244)
March 31, 2014, With an allowance recorded:				
Commercial & industrial	$ 0	$ 0	$ 0	$ 0
Commercial mortgage	0	0	0	0
Commercial construction	0	0	0	0
Residential mortgage	0	0	0	0
Home equity	0	0	0	0
Automobile	0	0	0	0
Other consumer	0	0	0	0
Total impaired loans with an allowance recorded	$ 0	$ 0	$ 0	$ 0
December 31, 2013, With no related allowance recorded:				
Commercial & industrial	$ 3,459	$ 3,646	$ 3,231	$ 14
Commercial mortgage	6,780	8,495	7,400	0
Commercial construction	0	0	0	0
Residential mortgage	6,351	6,449	6,594	0
Home equity	61	61	68	0
Automobile	0	0	0	0
Other consumer	195	204	215	0
Total impaired loans with no related allowance	$ 16,846	$18,855	$ 17,508	$ 14
December 31, 2013, With an allowance recorded:				
Commercial & industrial	$ 0	$ 0	$ 0	$ 0
Commercial mortgage	0	0	0	0
Commercial construction	0	0	0	0
Residential mortgage	0	0	0	0
Home equity	0	0	0	0
Automobile	0	0	0	0
Other consumer	0	0	0	0
Total impaired loans with an allowance recorded	$ 0	$ 0	$ 0	$ 0

Impairment is measured on a loan-by-loan basis for commercial and real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral (if the loan is collateral-dependent). Large groups of smaller-balance, homogeneous loans are collectively evaluated for impairment. The Bank performs direct write-downs of impaired loans with a charge to the allocated component of the allowance for loan losses, thereby reducing the allocated component of the allowance to zero at the end of each reporting period.

Troubled Debt Restructurings

In accordance with FASB's Accounting Standard Update No. 2011-02, *"A Creditor's Determination of Whether a Restructuring is a Troubled Debt* Restructuring*"* (ASU No. 2011-02), the Bank had $9.6 million of troubled debt restructurings (TDRs) as of March 31, 2014. The restructured loans recorded with the Bank have been modified for the purpose of alleviating temporary impairments to the borrower's financial condition. The modifications that the Bank has extended to borrowers have come in the form of a change in the amortization terms, reduction in the interest rate, and interest-only payments. The workout plan between the borrower and the Bank is designed to provide a bridge for cash flow shortfalls in the near term. As the borrower works through the near term issues, in most cases, the original contractual terms will be reinstated.

Additional information regarding performing and nonperforming TDRs at March 31, 2014 and December 31, 2013 is set forth in the following table:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	March 31, 2014	December 31, 2013
			(Dollars in thousands)		
Performing					
Residential mortgage	4	$ 705	$ 705	$ 696	$ 0
Commercial mortgage	6	3,982	3,982	3,511	3,551
Automobile	0	0	0	0	0
Consumer	0	0	0	0	0
Total performing TDRs	10	4,687	4,687	4,207	3,551
Nonperforming					
Residential mortgage	0	$ 0	$ 0	$ 0	$ 0
Commercial mortgage	7	10,120	8,805	5,394	5,554
Automobile	0	0	0	0	0
Consumer	0	0	0	0	0
Total nonperforming TDRs	7	10,120	8,805	5,394	5,554
Total Troubled Debt Restructurings (TDRs)	17	$ 14,807	$ 13,492	$ 9,601	$ 9,105

Note 6 – Commitments and Contingencies

Leases

The Bank utilizes facilities, equipment and land under various operating leases with terms ranging from 1 to 99 years. Some of these leases include scheduled rent increases. The total amount of the rent is being charged to expense on the straight-line method over the lease terms in accordance with ASC Topic 840 *"Leases"*. The Bank has recorded a deferred obligation of $775 thousand and $760 thousand as of March 31, 2014, and December 31, 2013, respectively, which is included within other liabilities, to reflect the excess of rent expense over cash paid on the leases.

At March 31, 2014, annual lease commitments under the above non-cancelable operating leases were as follows:

Period ending December 31,	
2014	$ 1,714
2015	1,503
2016	1,167
2017	879
2018	674
Thereafter	17,785
Total	$23,722

The Bank leases certain facilities from two separate entities in which two of its directors have separate ownership interests. Lease payments made to these entities during the three months ended March 31, 2014, and the twelve months ended December 31, 2013, approximated $93 thousand and $370 thousand, respectively.

Additionally, the Bank leases office space to third parties, with original lease terms ranging from 3 to 5 years and option periods ranging up to 15 years. At March 31, 2014, minimum future rents to be received under non-cancelable operating sublease agreements were $196, $70 and $52 thousand for the periods ending December 31, 2014, 2015 and 2016, respectively.

A summary of rental activities for the three-month periods ended March 31, 2014, and March 31, 2013, is as follows:

	March 31, 2014	March 31, 2013
Rent expense	$ 604	$ 583
Less: sublease rentals	68	67
Net rent expense	$ 536	$ 516

Litigation, Claims and Assessments

The Bank is involved in certain legal actions and claims that arise in the ordinary course of business. Management believes that, as a result of its legal defenses and insurance arrangements, none of these matters is expected to have a material adverse effect on the Bank's or the Company's financial position, results of operations or cash flows.

Note 7 – Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the United States federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's and the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items, as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of March 31, 2014, and December 31, 2013, the Bank met all capital adequacy requirements to which it is subject.

As of March 31, 2014, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table.

There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of March 31, 2014, and December 31, 2013, are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At March 31, 2014:						
Total capital (to Risk Weighted Assets)	$109,668	12.28%	$ 71,439	8.00%	$ 89,299	10.00%
Tier 1 capital (to Risk Weighted Assets)	$ 98,633	11.18%	$ 35,278	4.00%	$ 52,917	6.00%
Tier 1 capital (to Average Assets)	$ 98,633	7.18%	$ 54,952	4.00%	$ 68,690	5.00%
At December 31, 2013:						
Total capital (to Risk Weighted Assets)	$108,238	12.53%	$ 69,114	8.00%	$ 86,392	10.00%
Tier 1 capital (to Risk Weighted Assets)	$ 97,563	11.43%	$ 34,130	4.00%	$ 51,195	6.00%
Tier 1 capital (to Average Assets)	$ 97,563	7.60%	$ 51,320	4.00%	$ 64,151	5.00%

Note 8 – Off-Balance-Sheet Activities

The Bank is a party to credit-related financial instruments with off-balance-sheet risk to meet the financing needs of its customers in the normal course of business. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the condensed consolidated financial statements.

The Bank's exposure to credit loss, in the event of nonperformance by the other parties to financial instruments for loan commitments and letters of credit, is represented by the contractual amount of these instruments. The Bank follows the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of financial instruments with off-balance-sheet risk at March 31, 2014, and December 31, 2013, is as follows:

	March 31, 2014	December 31, 2013
Commitments to extend credit	$162,426	$ 121,618
Letters of credit:		
Standby letters of credit	$ 47,930	$ 47,543
Other letters of credit	4,692	2,582
Total	$ 52,622	$ 50,125

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for some lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party or the shipment of merchandise from a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. The majority of all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers, and similar credit underwriting standards are applied. The Bank generally holds collateral supporting those commitments.

The Bank considers its standby and other letters of credit to be payment guarantees. At March 31, 2014, the maximum undiscounted future payments that the Bank could be required to make for all outstanding letters of credit were $52.6 million. All of these arrangements mature within one year. The Bank has recourse to recover from the customer any amounts paid under these guarantees. Most of the guarantees are fully collateralized; however, several are unsecured. The Bank had not recorded any liabilities associated with these guarantees at March 31, 2014.

Note 9 – Income Taxes

We record an amount equal to the tax credits, tax loss carry-forwards and tax deductions ("tax benefits") that we believe will be available to us to offset or reduce the amounts of our income taxes in future periods as a deferred tax asset on our balance sheet. Under applicable federal and state income tax laws and regulations in the United States, such tax benefits will expire if not used within specified periods of time. Accordingly, the ability to fully use our deferred tax asset depends on the amount of taxable income that we generate during those time periods. At least once each year, or more frequently if warranted, we make estimates of future taxable income that we believe we are likely to generate during those future periods. If we conclude, on the basis of those estimates and the amount of the tax benefits available to us, that it is more likely than not that we will be able to fully utilize those tax benefits prior to their expiration, we recognize the deferred tax asset in full on our balance sheet. On the other hand, if we conclude on the basis of those estimates and the amount of the tax benefits available to us that it has become more likely than not that we will be unable to utilize those tax benefits in full prior to their expiration, then we would establish a (or increase any existing) valuation allowance to reduce the deferred tax asset on our balance sheet to the amount which we believe we are more likely than not to be able to utilize. Such a reduction is implemented by recognizing a non-cash charge that would have the effect of increasing the provision, or reducing any credit, for income taxes that we would otherwise have recorded in our statements of operations. The determination of whether and the extent to which we will be able to utilize our deferred tax asset involves significant management judgments and assumptions that are subject to period-to-period changes as a result of changes in tax laws, changes in the market, or economic conditions that could affect our operating results or variances between our actual operating results and our projected operating results, as well as other factors.

A valuation allowance of $2.0 million has been provided at March 31, 2014, to reduce the deferred tax asset because, in management's opinion, it is more likely than not that less than the entire amount will be realized. The portion of the deferred tax asset with valuation allowance is attributable to a net operating loss carry forward from the Bank's California operations. The benefit of the net operating loss has already been realized as a result of the Guam income tax code.

The difference between the effective income tax expense and the income tax expense computed at the Guam statutory rate was due to nontaxable interest income earned on loans to the Government of Guam for each of the years ended December 31, 2013 and 2012.

The Bank files income tax returns in Guam, the CNMI and the State of California. The Bank is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2008.

Note 10 – Fair Value of Assets and Liabilities

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820 *"Fair Value Measurements and Disclosures"*, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The fair value guidance of ASC Topic 820

provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under then-current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under then-current market conditions depends on the facts and circumstances, and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under then-current market conditions.

Fair Value Hierarchy

In accordance with the guidance of ASC Topic 820, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Financial assets measured at fair value on a recurring basis as of March 31, 2014, and December 31, 2013, are as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At March 31, 2014				
U.S. government agency and sponsored enterprise (GSE) debt securities	$ 0	$ 25,296	$ 0	$ 25,296
U.S. government agency pool securities	0	51,094	0	51,094
U.S. government agency or GSE	0	168,620	0	168,620
Other assets:				
MSRs	0	0	1,417	1,417
Total assets	$ 0	$245,010	$ 1,417	$246,427
At December 31, 2013				
U.S. government agency and sponsored enterprise (GSE) debt securities	$ 0	$ 0	$ 0	$ 0
U.S. government agency pool securities	0	54,292	0	54,292
U.S. government agency or GSE	0	128,540	0	128,540
Other assets:				
MSRs	0	0	1,354	1,354
Total assets	$ 0	$182,832	$ 1,354	$184,186

There were no liabilities measured at fair value on a recurring basis as of March 31, 2014, and December 31, 2013.

During the periods ended March 31, 2014, and December 31, 2013, the changes in Level 3 assets measured at fair value on a recurring basis are as follows:

	MSRs	
	March 31, 2014	December 31, 2013
Beginning balance	$ 1,354	$ 1,285
Realized and unrealized net gains:		
Included in net income	63	69
Included in other comprehensive income	0	0
Purchases, sales and issuances		
Purchases	(6,044)	(31,546)
Sales	6,044	31,546
Issuances	0	0
Ending balance	$ 1,417	$ 1,354

The valuation technique used for Level 3 assets in this category is their discounted cash flow. Inputs considered in determining Level 3 pricing include the anticipated prepayment rates, default rates, and the loss severity given a future default. Significant increases or decreases in any of those inputs in isolation would result in a significantly lower or higher fair value measurement. In general, a change in the assumption of the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity in an event of default.

The MSRs are priced with a discount rate composed of two components: a risk-free rate plus a risk premium. Future servicing income is assumed to be received on active loans in line with the outstanding balance each month, multiplied by the difference between the parent and investor interest rates (the "spread"). For most of the mortgage loans serviced, the spread is 0.375%. We have discounted income net of expenses and tax for each month of the projection. We used a yield curve built up using the Capital Asset Pricing Model ("CAPM") approach. We have used a risk-free rate based on U.S. Federal Government zero coupon bond yields at the valuation date (with a term appropriate to the future income from the loan portfolio), an assumed risk premium of 6.0% *per annum* and a beta of 1.0.

There were no transfers into or out of the Bank's Level 3 financial assets for the periods ended March 31, 2014, and December 31, 2013.

Fair Value on a Nonrecurring Basis

Under certain circumstances, the Bank makes adjustments to fair value for assets and liabilities even though they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated statements of condition by caption and by level in the fair value hierarchy at March 31, 2014, and December 31, 2013, for which a nonrecurring change in fair value has been recorded:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
March 31, 2014				
Loans, net				
Impaired loans	$ 0	$ 482	$ 0	$ 482
Other assets				
Other real estate owned	$ 0	$ 4,574	$ 0	$4,574
December 31, 2013				
Loans, net				
Impaired loans	$ 0	$ 364	$ 0	$ 364
Other assets				
Other real estate owned	$ 0	$ 4,610	$ 0	$4,610

In accordance with the provisions of loan impairment guidance of ASC Subtopic 310-10-35, individual loans with total carrying values of $394 thousand at December 31, 2013, were written down to their fair value of $364 thousand, resulting in an impairment charge of $30 thousand which was recorded as a charge-off to the allowance for loan losses. During the quarter ending March 31, 2014, two loans with a combined carrying value of $514 thousand were written down by $32 thousand to a fair value of $482

thousand. The fair value of loans subject to write downs is estimated using the appraised value of the underlying collateral, discounted as necessary due to management's estimates of changes in economic conditions, less the estimated costs of selling the assets.

In accordance with the provisions of the Impairment or Disposal of Long-Lived Assets Subsections of ASC Subtopic 360–10, foreclosed assets with a carrying amount of $4.9 million at December 31, 2013, were written down to their fair value of $3.7 million, resulting in a loss of $1.2 million for the period. During the quarter ending March 31, 2014, the Bank added three foreclosed properties to other real estate owned (OREO) totaling $259 thousand, which was offset by the sale of four properties totaling $295 thousand. OREO losses for the period, resulting from two small sale deficiencies write downs, amounted to slightly under $1 thousand, resulting in a quarter ending OREO balance of $4.6 million. Other real estate owned balances subject to write-downs are estimated using the appraised value of the underlying collateral, discounted as necessary due to management's estimates of changes in economic conditions, less the estimated costs to sell the assets.

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents

The carrying amount of cash and short-term instruments approximates fair value based on the short-term nature of the assets.

Interest-Bearing Deposits in Banks

Fair values for other interest-bearing deposits are estimated using discounted cash flow analyses based on current interest rates or yields for similar types of deposits.

Investment Securities

When quoted prices are available in an active market, the Bank classifies the securities within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid U.S. Government debt and equity securities.

If quoted market prices are not available, the Bank estimates fair values using pricing models and discounted cash flows that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, and credit spreads. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U.S. GSE obligations, corporate bonds, and other securities. Mortgage-backed securities are included in Level 2 if observable inputs are available. In certain cases where there is limited activity or less transparency around inputs to the valuation, the Bank would classify those securities in Level 3. At March 31, 2014, and December 31, 2013, the Bank did not have any Level 3 securities.

Loans

For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Mortgage Servicing Rights

The fair value of MSRs is determined using models which depend on estimates of prepayment rates and resultant weighted average lives of the MSRs and option-adjusted interest rate spread levels.

Deposit Liabilities

The fair values disclosed for demand deposits (for example, interest and non-interest checking, passbook savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies current market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Borrowings

The carrying amounts of federal funds purchased and Federal Home Loan Bank (FHLB) advances maturing within ninety days approximate their fair values.

Long-Term Borrowings

The fair value of FHLB advances maturing after ninety days is determined based on expected present value techniques using current market interest rates for advances with similar terms and remaining maturities.

Accrued Interest

The carrying amount of accrued interest approximates fair value.

Off-Balance Sheet Commitments and Contingent Liabilities

Management does not believe it is practicable to provide an estimate of fair value for off-balance sheet commitments or contingent liabilities because of the uncertainty involved in attempting to assess the likelihood and timing of a commitment being drawn upon, coupled with a lack of an established market for these instruments and the wide diversity of fee structures.

Fair Value of Other Financial Instruments

The estimated fair values of the Bank's other financial instruments, excluding those assets recorded at fair value on a recurring basis on the Bank's consolidated statements of condition, are as follows:

	March 31, 2014			
	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 140,961	$140,961		
Interest bearing deposits with banks	400	400		
Investment securities held to maturity	81,965		82,722	
Loans	882,529	—	—	873,591
Total	$1,105,855	$141,361	$ 82,722	$873,591
Financial liabilities:				
Deposits	$1,302,380	$ —	$1,299,178	$ —
Total	$1,302,380	$ —	$1,299,178	$ —

	December 31, 2013			
	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	$ 96,583	$96,583		
Interest bearing deposits with banks	400	400		
Investment securities held to maturity	88,989		88,820	
Loans	860,883	—	—	859,808
Total	$1,046,855	$96,983	$ 88,820	$859,808
Financial liabilities:				
Deposits	$1,183,445	$ —	$1,185,531	$ —
Total	$1,183,445	$ —	$1,185,531	$ —

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of the Company and its wholly-owned subsidiary, the Bank. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of operations. This discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the accompanying notes presented elsewhere in this Quarterly Report.

Overview

BankGuam Holding Company (the "Company") is a Guam corporation organized on October 29, 2010, to act as a holding company of Bank of Guam (the "Bank"), a 23-branch bank serving the communities in Guam, the Commonwealth of the Northern Mariana Islands (CNMI), the Federated States of Micronesia (FSM), the Republic of the Marshall Islands (RMI), the Republic of Palau (ROP), and San Francisco, California. On August 15, 2011, the Company acquired all of the outstanding common stock of the Bank in a holding company formation transaction.

Other than holding the shares of the Bank, the Company conducts no significant activities, although it is authorized, with the prior approval of its principal regulator, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), to engage in a variety of activities related to the business of banking. Currently, substantially all of the Company's operations are conducted and substantially all of the assets are owned by the Bank, which accounts for substantially all of our consolidated revenues, expenses and operating income. The Bank's headquarters is located in Hagåtña, Guam, and the Bank provides a variety of financial services to individuals, businesses and government entities through its branch network. The Bank's primary deposit products are demand deposits, savings and time certificates of deposit, and its primary lending products are consumer, commercial and real estate loans. The Bank also provides many other financial services to its customers.

Summary of Operating Results

The following table provides unaudited comparative information with respect to our results of operations for the three-month periods ended March 31, 2014 and 2013, respectively:

(unaudited)	Three months ended March 31,		
	2014	2013	%
(dollars in thousands)	Amount	Amount	Change
Interest income	$16,231	$15,276	6.3%
Interest expense	1,175	1,425	(17.5)%
Net interest income	15,056	13,851	8.7%
Provision for loan losses	900	975	(7.7)%
Net interest income after provision for loan losses	14,156	12,876	9.9%
Total non-interest income	2,468	3,019	(18.3)%
Total non-interest expense	13,622	13,208	3.1%
Net income before income taxes	3,002	2,687	11.7%
Provision for income taxes	875	762	14.8%
Net income	$ 2,127	$ 1,925	9.1%
Net income per common share			
Basic	$ 0.24	$ 0.22	
Diluted	$ 0.24	$ 0.22	

As the above table indicates, our net income increased in the three months ended March 31, 2014, as compared to the corresponding period in 2013. In the three months ended March 31, 2014, we recorded net income after taxes of $2.1 million, an increase of $176 thousand (or 9.1%) as compared to the same period in 2013. These results were most significantly impacted by: (i) much higher net interest income, which increased by $1.2 million, partially offset by a decrease of $551 thousand in non-interest income; (ii) an increase of $414 thousand in non-interest expense; and, (iii) higher total income tax expenses, which increased by $139 thousand. This increase in non-interest expenses in the three months ended March 31, 2014, as compared to the same period in 2013, was largely attributed to: (i) an increase in salaries and employee benefits expenses, which went up by $1.0 million; (ii) an increase of $264 thousand in general, administrative and other expenses; (iii) an increase of $142 thousand in professional services expenses; and, (iv) a $100 thousand increase in occupancy expenses. These increases were partially offset by: (i) a reduction of $635 thousand in general, administrative and other expenses; (ii) a $109 thousand drop in education expenses; and, (iii) a $108 thousand decrease in furniture and equipment expenses.

The following table shows the increase in our net interest margin and indicates the impact that the increase in our operating results in

the three months ended March 31, 2014, had on our annualized returns on average assets and average equity during that period, as compared to the first three months of 2013:

	Three months ended March 31,	
	2014	2013
Net interest margin	4.60%	4.61%
Return on average assets	0.61%	0.66%
Return on average equity	8.88%	8.84%

Critical Accounting Policies

The Company's significant accounting policies are set forth in Note 2 in the Notes to the Company's Annual Report on Form 10-K for 2013 filed with the SEC on March 17, 2014, and Note 2 of Item 1 in this report. Our unaudited condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and general practices in the banking industry. Certain of those accounting policies are considered critical accounting policies because they require us to make assumptions and judgments regarding circumstances or trends that could affect the carrying values of our material assets, such as assumptions regarding economic conditions or trends that could impact our ability to fully collect our outstanding loans or ultimately realize the carrying values of certain of our other assets, such as securities that are available for sale. If adverse changes were to occur in the events, trends or other circumstances on which our assumptions or judgments have been based, or other unanticipated events were to happen that might affect our operating results, it could become necessary under GAAP for us to reduce the carrying values of the affected assets on our Statement of Condition. In addition, because reductions in the carrying values of assets are sometimes effectuated by or require charges to income, such reductions also may have the effect of reducing our income. The following is a brief description of the Company's current accounting policies involving significant valuation judgments:

Loans and Interest on Loans

Loan receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances, reduced by any charge-offs of specific valuation allowances and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment in income over the life of the related loan.

Loans on which the accrual of interest has been discontinued are designated as non-accruing loans. The accrual of interest on loans is discontinued when principal and/or interest is past due 90 days or more based on the contractual terms of the loan and/or when, in the opinion of management, there is a reasonable doubt as to collectability, unless such loans are well-collateralized and in the process of collection. When loans are placed in non-accrual status, all interest previously accrued but not collected is reversed as a charge against current period interest income. Subsequent payments received on such loans are generally applied as a reduction to the loan principal balance, unless the likelihood of further loss is remote whereby cash interest payments may be recorded during the time the loan is on non-accrual status. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, all remaining principal and interest is estimated to be fully collectible, there has been at least six months of sustained repayment performance since the loan was placed on non-accrual, and/or management believes, based on current information, that such loan is no longer impaired.

Management considers a loan to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all of the amounts due according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are discounted at the loan's original effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank performs direct write-downs of impaired loans with a charge to the allocated component of the allowance for loan losses, thereby reducing the allocated component of the allowance to zero at the end of each reporting period.

Allowance for Loan Losses

The Bank maintains its allowance for loan losses at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio as of the balance sheet date. The amount of the allowance is based on management's periodic evaluation of the collectability of the loan portfolio, including the nature and volume of the portfolio, credit concentrations, trends in historical loss experience, the level of certain classified and impaired loans, and economic conditions and the related impact on specific borrowers that may affect the borrower's ability to repay. The allowance is increased by provisions for loan losses, which are charged against net interest earnings, and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the allowance for loan losses. Because of uncertainties in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change.

Other Real Estate Owned

Real estate and other property acquired in full or partial settlement of loan obligations is referred to as other real estate owned ("OREO"). OREO is originally recorded in the Bank's unaudited condensed financial statements at the lower of the carrying amount of the loan or the fair value of the property, less any estimated costs to sell the underlying assets. When property is acquired through foreclosure or surrendered in lieu of foreclosure, the Bank measures the fair value of the property acquired against its recorded investment in the loan. If the fair value of the property at the time of acquisition is less than the recorded investment in the loan, the difference is charged to the allowance for loan losses. Any subsequent fluctuations in the fair value of the OREO are recorded against a valuation allowance for other real estate owned, established through a charge to non-interest expense. All related operating or maintenance costs are charged to non-interest expense as incurred. Any subsequent gains or losses on the sale of OREO are recorded

in other income or expense as incurred.

Investment Securities

In accordance with U.S. GAAP, securities are classified in three categories and accounted for as follows: (i) securities that the Bank has the intent and ability to hold to maturity are classified as “held-to-maturity” and are measured at amortized cost; (ii) securities bought and held principally for the purpose of selling in the near term are classified as “trading” securities and are measured at fair value, with unrealized gains and losses reflected in earnings; and, (iii) securities not classified as either held-to-maturity or trading are classified as “available-for-sale” securities and are measured at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of stockholders’ equity. Where available, the fair values of available-for-sale securities are based on quoted market prices. If quoted market prices are not available, fair values are estimated from the quoted prices of similar instruments or through the use of other observable data supporting a valuation model. Gains and losses on sales of investment securities are determined on the specific identification method. Premiums and discounts are amortized or accreted using the interest method over the expected lives of the related securities. The Bank does not hold securities for trading purposes.

Results of Operations

Net Interest Income

Net interest income, the primary component of the Bank's income, refers to the difference between the interest earned on loans, investment securities and other interest-earning assets, and the interest paid on deposits and other borrowed funds. Our interest income and interest expense are affected by a number of factors, some of which are outside of our control, including national and local economic conditions, the monetary policies of the Federal Reserve Board which affect interest rates, competition in the marketplace for loans and deposits, the demand for loans and the ability of borrowers to meet their payment obligations. Net interest income, when expressed as a percentage of average earning assets, is a banking organization's "net interest margin".

The following table sets forth our interest income, interest expense and net interest income, and our *annualized* net interest margin for the three-month periods ended March 31, 2014 and 2013, respectively:

	Three months ended March 31,		
(dollars in thousands)	2014 Amount	2013 Amount	% Change
Interest income	$16,231	$15,276	6.3%
Interest expense	1,175	1,425	(17.5)%
Net interest income	$15,056	$13,851	8.7%
Net interest margin	4.60%	4.61%	(0.01)%

Net interest income increased by 8.7% for the three months ended March 31, 2014, as compared to the corresponding period in 2013.

For the three months ended March 31, 2014, net interest income rose by $1.2 million as compared to the same period in 2013. Total interest income increased by $955 thousand, principally because of a $1.1 million increase in interest earned on loans, partially offset by a $120 thousand decrease in interest income from securities investments. The increase in interest income was reinforced by a $250 thousand decrease in total interest expense that was predominantly due to a decrease of $166 thousand in the interest paid on savings deposits, supplemented by an $80 thousand decrease in interest paid on other borrowed funds.

As indicated in the above table, our net interest margin for the three months ended March 31, 2014, was 4.60%, a decrease of 0.01% from the 4.61% margin during the first quarter of 2013.

Average Balances

Distribution, Rate and Yield

The following table sets forth information regarding our average balance sheet, annualized yields on interest earning assets and interest rates on interest-bearing liabilities, the interest rate spread and the interest rate margin for the three month period ended March 31, 2014 and 2013:

	Three months ended March 31,					
(dollars in thousands)	2014 Average balance	2014 Interest earned/paid	2014 Average yield/rate	2013 Average balance	2013 Interest earned/paid	2013 Average yield/rate
Interest earning assets:						
Short term investments[1]	$ 111,488	$ 45	0.16%	$ 107,204	$ 59	0.22%
Investment securities[2]	308,962	1,248	1.62%	313,492	1,368	1.75%
Loans[3]	887,985	14,938	6.73%	780,795	13,849	7.09%
Total interest earning assets	1,308,435	16,231	4.96%	1,201,491	15,276	5.09%
Non-interest earning assets	66,138			67,266		
Total Assets	$1,374,573			$1,268,757		
Interest-bearing liabilities:						
Interest-bearing checking accounts	$ 129,872	36	0.11%	$ 116,455	67	0.23%
Money market and savings accounts	754,158	1,090	0.58%	692,503	1,224	0.71%
Certificates of deposit	50,361	49	0.39%	55,865	54	0.39%
Other borrowings	0	0	0.0%	6,680	80	4.79%
Total interest-bearing liabilities	934,391	1,175	0.50%	871,503	1,425	0.65%
Non-interest-bearing liabilities	345,513			301,930		
Total Liabilities	1,279,904			1,173,433		
Stockholders' equity	94,669			95,324		
Total Liabilities and Stockholders' equity	$1,374,573			$1,268,757		
Net interest income		$ 15,056			$ 13,851	
Interest rate spread			4.46%			4.43%
Net interest margin			4.60%			4.61%

(1) Short term investments consist of federal funds sold and interest-bearing deposits that we maintain with other financial institutions.

(2) Includes all investment securities in the Available-for-Sale and the Held-to-Maturity classifications.

(3) Loans include the average balance of non-accrual loans.

For the three months ended March 31, 2014, our total average earning assets increased by $106.9 million as compared to the same period in 2013, attributed almost entirely to the $107.2 million increase in our average loan portfolio, supplemented by the $4.3 million increase in average short term investments, but partially offset by the $4.5 million decrease in our investment securities portfolio. The overall year-over-year growth in our average earning assets was the result of sustained growth in our deposit base. In the same three month period ended March 31, 2014, average interest-bearing liabilities increased by $62.9 million, primarily based upon a net increase of $69.6 million average total deposits, which was comprised of an increase in average interest-bearing checking accounts by $13.4 million and an increase in average interest-bearing money market and savings accounts by $61.7 million, partially offset by a $5.5 million decrease in interest-bearing certificates of deposit. The net increase of interest-bearing deposits was partially offset by a decrease of $6.7 million in other borrowings. The increase of $43.6 million in non-interest bearing liabilities resulted in an overall increase of $106.5 million in average total liabilities. During the first quarter of 2014, average stockholders' equity decreased by $655 thousand.

Our net interest rate spread increased by 0.02% and our net interest margin decreased by 0.01% in the three months ended March 31, 2014, as compared to the same period in 2013. The increase in our interest rate spread is primarily attributed to the 0.36% decrease in the yield on our loan portfolio, and the 0.13% decrease in our investment securities yields, leading to a 0.13% decrease in our yield on total interest earning assets, coupled with a decrease of 0.15% in our cost of total interest-bearing liabilities, which was primarily due to a 0.13% decrease in our interest rates associated with money market and savings accounts and the payoff of other borrowings, augmented by a 0.12% decrease in the interest rate that we paid on interest-bearing checking accounts. The 0.01% decrease in our net interest margin resulted from the 8.70% increase in our net interest income not keeping pace with the 8.90% increase in our total interest earning assets.

Provision for Loan Losses

We maintain allowances to provide for possible loan losses that occur from time to time as an incidental part of the banking business. As more fully discussed in Note 5 of the notes to the unaudited condensed consolidated financial statements in Item 1 of this Quarterly Report Form 10-Q, an allowance for loan losses has been established by management in order to provide for those loans, which for a variety of reasons, may not be repaid in their entirety. The allowance is maintained at a level considered by management to be adequate to provide for probable losses during the holding period of the loan and is based on methodologies applied on a consistent basis with the prior year. Management's review of the adequacy of the allowance includes, among other things, loan growth, changes in the composition of the loan portfolio, an analysis of past loan loss experience and management's evaluation of the loan portfolio under current economic conditions.

The allowance for loan losses is based on estimates, and ultimate losses will vary from current estimates. The Bank recognizes that credit losses will be experienced and the risk of loss will vary with, among other things: general economic conditions; the type of loan being made; the credit worthiness of the borrower over the term of the loan; and, in the case of a collateralized loan, the quality of the collateral for such loan. The allowance for loan losses represents the Bank's best estimate of the allowance necessary to provide for probable losses in the portfolio as of the balance sheet date.

If management determines that it is necessary to increase the allowance for loan losses, a provision for loan losses is taken from current income and assigned to the allowance. For the three-month period ended March 31, 2014, the Bank's provision for loan losses was $900 thousand, which was $75 thousand less than during the corresponding period of 2013. Management believes that the provision for loan losses was sufficient to provide for the incremental adjustment to the risk of loss inherent with the increase in the average loan portfolio by $107.2 million, from $780.8 million for the three months ended March 31, 2013, to $888.0 million for the three months ended March 31, 2014, primarily due to an improvement in the quality of the portfolio as reflected by reduced charge-offs. By comparison, we recorded net loan charge-offs of $449 thousand for the three month period ended March 31, 2014, and the allowance for loan losses at March 31, 2014, stood at $12.5 million or 1.39% of total gross loans outstanding as of the balance sheet date. See "Analysis of Allowance for Loan Losses" in the Financial Condition Section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Non-Interest Income

The table below represents the major components of non-interest income and the changes therein for the three-month periods ended March 31, 2014 and 2013.

	Three months ended March 31,			
(dollars in thousands)	2014 amount	2013 amount	Amount change	Percent change
Service charges and fees	$1,109	$1,009	$ 100	9.9%
Investment securities gains, net	0	207	(207)	(100.0)%
Income from merchant services	529	533	(4)	(0.8)%
Income from cardholders	107	515	(408)	(79.2)%
Wire transfer fees	168	162	6	3.7%
Trustee fees	53	120	(67)	(55.8)%
Other income	502	473	29	6.1%
Total non-interest income	$2,468	$3,019	$ (551)	(18.3)%

For the three months ended March 31, 2014, non-interest income totaled $2.5 million, which represented a decrease of $551 thousand as compared to the same period in 2013. The decline is primarily attributed to the $408 thousand decrease in income from cardholders as a result of a reduction in the incentive payments that we receive for card issuance and activity, combined with increases in the costs of authorization fees and our card rewards program. Investment securities gains decreased from $207 thousand to zero due to adverse changes in market interest rates, partially offset by a $100 thousand increase in service charges and fees.

Non-interest Expense

The table below represents the major components of non-interest expense and the changes for the three-month periods ended March 31, 2014 and 2013.

	Three months ended March 31,			
(dollars in thousands)	2014 amount	2013 amount	Amount change	Percent change
Salaries and employee benefits	$ 6,517	$ 5,514	$1,003	18.2%
Occupancy	1,673	1,573	100	6.4%
Furniture and equipment	1,530	1,638	(108)	(6.6)%
Professional services	473	331	142	42.9%
Insurance	418	415	3	0.7%
Contract services	368	330	38	11.5%
Telecommunications	366	382	(16)	(4.2)%
FDIC insurance expense	256	276	(20)	(7.2)%
Stationery & supplies	198	182	16	8.8%
Education	126	235	(109)	(46.4)%
Other real estate owned	5	904	(899)	(99.4)%
General, administrative and other expense	1,692	1,428	264	18.5%

Total non-interest expense	$13,622	$13,208	$ 414	3.1%

For the three months ended March 31, 2014, non-interest expense totaled $13.6 million, which represented a $414 thousand increase as compared to the same period in 2013. The increase is largely attributed to the $1.0 million increase in salaries and employee benefits, the $264 thousand increase in general, administrative and other expenses, the $142 thousand increase

in professional services expense and the $100 thousand increase in occupancy expense, primarily offset by the $899 thousand decrease in other real estate owned expenses, the $109 thousand drop in education expense and the $108 thousand reduction in furniture and equipment expense. The $1.0 million increase in salaries and employee benefits was due to normal, recurring merit increases in salaries, an increase in the number of full-time equivalent employees needed to accommodate the rise in the size of the Bank and increases associated with the benefit packages provided to employees. The increase in general, administrative and other expenses primarily resulted from increases in special professional services expenses, provision for OREO losses expenses and donation expenses. The increase in professional services expense was largely due to the engagement of a specialized auditing firm to perform the internal audit of our credit portfolio. The increase in occupancy expense was due to higher depreciation and rental costs. The decrease in other real estate owned expenses was due to large OREO expense associated with a nonrecurring write-down in the first quarter of 2013. The 46.4% plunge in education expense occurred because of costs during the first quarter of 2013 for relationship banking training and a one-time expenditure in implementing a new on-line training system did not recur this year. The reduction in furniture and equipment expense was primarily due to a $100 thousand reduction in computer maintenance expense.

Income Tax Expense

For the three months ended March 31, 2014, the Bank recorded income tax expenses of $875 thousand. This compares to the $762 thousand in income tax expenses recorded for the corresponding period in 2013, and the increase is the result of the Bank's $315 thousand rise in overall pre-tax profits as compared to the same period in 2013.

Financial Condition

Assets

As of March 31, 2014, total assets were $1.41 billion, an increase of 9.5% from the $1.28 billion at December 31, 2013. This increase is largely attributed to the $62.2 million rise in our available-for-sale securities, the $44.4 million jump in our total cash and cash equivalents, and our $21.6 million increase in net loans, attenuated by a decrease of $7.0 million in held-to-maturity securities. Other assets grew by $487 thousand and accrued interest receivable climbed by $466 thousand. The jump in total cash and cash equivalents was the result of a $49.9 million increase in interest-bearing deposits in banks, offset by a $5.6 million decrease in cash and due from banks. The $122.1 million increase in total assets was funded by an increase of $118.9 million in total deposits and a $1.6 million increase in other liabilities, and resulted in a $1.6 million increase in stockholders' equity.

Interest-Earning Assets

The following table sets forth the composition of our interest-earning assets at March 31, 2014, as compared to December 31, 2013:

(dollars in thousands)	March 31, 2014	December 31, 2013	Variance
Interest-earning deposits with financial institutions	$ 114,782	$ 64,841	$ 49,941
Federal Funds sold	5,000	5,000	0
Federal Home Loan Bank stock, at cost	2,098	2,098	0
Investment securities available for sale	245,010	182,832	62,178
Investment securities held to maturity	81,965	88,989	(7,024)
Loans (net of allowances of $12,458 and $12,077 and deferred fees of $2,123 and $2,213)	882,529	860,883	21,646
Total interest-earning assets	$1,331,384	$1,204,643	$126,741

Loans

Commercial & industrial loans are loans to businesses to finance capital purchases and improvements, or to provide cash flow for operations. Commercial mortgage loans includes loans secured by real property for purposes such as the purchase or improvement of real property, wherein repayment is derived from the income generated by the real property or from business operations. Residential mortgage loans are loans to finance the purchase, improvement, or refinance of real property secured by 1-4 family units. Consumer loans are loans to individuals to finance personal needs and are either closed- or open-ended loans. Automobile loans and credit cards fall under the consumer loans category. The bulk of the other consumer loans is typically an unsecured extensions of credit.

A summary of the balances of loans at March 31, 2014, and December 31, 2013, follows:

(dollars in thousands)	March 31, 2014 Amount	March 31, 2014 Percent	December 31, 2013 Amount	December 31, 2013 Percent
Commercial				
Commercial & industrial	$194,936	21.7%	$183,364	21.0%
Commercial mortgage	386,586	43.1%	380,454	43.4%
Commercial construction	1,340	0.1%	697	0.1%
Total commercial	582,862	64.9%	564,515	64.5%
Consumer				
Residential mortgage	149,803	16.7%	152,757	17.5%
Home equity	1,008	0.1%	1,039	0.1%
Automobile	9,568	1.1%	7,269	0.8%
Other consumer loans [1]	153,869	17.2%	149,593	17.1%
Total consumer	314,248	35.1%	310,658	35.5%
Gross loans	897,110	100.0%	875,173	100.00%
Deferred fee (income) costs, net	(2,123)		(2,213)	
Allowance for loan losses	(12,458)		(12,077)	
Loans, net	$882,529		$860,883	

1 Comprised of other revolving credit, installment loans, and overdrafts.

At March 31, 2014, total gross loans increased by $21.9 million to $897.1 million, up from $875.2 million at December 31, 2013. The increase in loans is largely attributed to an $18.4 million increase in commercial loans to $582.9 million at March 31, 2014, from $564.5 million at December 31, 2013. The increase in total commercial loans was due to the $11.6 million growth in the commercial & industrial loan portfolio, supplemented by the $6.1 million increase in commercial mortgage loans and the $643 thousand rise in commercial construction loans. There was a $3.6 million increase in consumer loans, to $314.2 million at March 31, 2014, up from $310.7 million at December 31, 2013. The increase in consumer loans was due to a $4.3 million increase in other consumer loans and a $2.3 million increase in automobile loans.

At March 31, 2014, loans outstanding were comprised of approximately 64.75% variable rate loans and 35.25% fixed rate loans.

Since it first opened in 1972, the Bank has expanded its operations and its branch network, first in Guam, then in the other islands of our region and in San Francisco, California. In the interests of enhancing performance and stability through market and industry diversification, the Bank has increased its focus on growth in the San Francisco area in recent years, adding personnel with experience and expertise in the Bay Area. The following table provides figures for loans in the Bank's administrative regions for the years ending December 31, 2012 and 2013, and the quarter ending March 31, 2014:

	At December 31, 2012	At December 31, 2013	At March 31, 2014
Guam	$498,728	$550,380	$ 566,208
Commonwealth of the Northern Mariana Islands	$ 65,703	$ 66,252	$ 65,200
The Freely Associated States of Micronesia *	$ 40,618	$ 41,030	$ 40,273
California	$143,783	$203,221	$ 210,848
Total	$748,832	$860,883	$ 882,529

* The Freely Associated States are comprised of the Federated States of Micronesia (Chuuk, Kosrae, Pohnpei and Yap), the Republic of Palau and the Republic of the Marshall Islands.

As the table indicates, the Bank's total loans increased by 2.5% during the first quarter of 2014 and by 15.0% during 2013. By way of comparison, loans in the California region increased by 3.8% during the first quarter of 2014 and by 41.3% during 2013. While the Bank's overall loan portfolio continues to grow, the California region accounted for over half of that growth during 2013, and more than a third of loan growth for the three months ended March 31, 2014, providing continued support for the expansion of the Bank.

Interest Earning Deposits and Investment Securities

In the current lending environment and in order to maintain sufficient liquidity in the ordinary course of business, the Bank maintained $114.8 million in interest earning deposits with financial institutions at March 31, 2014, an increase of $49.9 million, or

77.0%, from the $64.8 million in such deposits at December 31, 2013. From December 31, 2013, to March 31, 2014, the Bank's combined investment portfolio increased by $55.2 million, or 20.1%, from $273.9 million to $329.1 million. The investment portfolio growth was comprised of a $62.2 million rise in available for sale securities, which increased by 34.0%, from $182.8 million to $245.0 million, offset by a $7.0 million decrease in held to maturity securities, which declined by 7.9%, from $89.0 million to $82.0 million. The combined increase in interest earning deposits with financial institutions and loans of $71.6 million, or 7.7%, was supported by to an increase of $118.9 million in deposits.

Nonperforming Loans and Other Nonperforming Assets

Nonperforming loans consist of (i) loans on non-accrual status because we have ceased accruing interest on these loans; (ii) loans 90 days or more past due and still accruing interest; and, (iii) restructured loans. Other nonperforming assets consist of real estate properties (OREO) that have been acquired through foreclosure or similar means and which management intends to offer for sale. Loans are placed on non-accrual status when, in the opinion of management, the full and timely collection of principal or interest is in doubt. Generally, the accrual of interest is discontinued when principal or interest payment becomes 90 days past due, unless the loan is adequately collateralized and the loan is in the process of collection. When a loan is placed in non-accrual status, accrued but unpaid interest is reversed against current income. Subsequently, when payments are received on such loans, the amounts are applied to reduce principal, except when the ultimate collectability of principal is probable, in which case accrued loans may be restored to accrual status when principal and interest becomes current and full repayment is expected. Interest income is recognized on an accrual basis for impaired loans not meeting the non-accrual criteria.

The following table contains information regarding our nonperforming assets as well as restructured loans as of March 31, 2014, and December 31, 2013.

(dollars in thousands)	March 31, 2014	December 31, 2013
Non-accrual loans:		
Commercial & industrial	$ 338	$ 343
Commercial mortgage	6,121	6,344
Commercial construction	0	0
Residential mortgage	6,913	6,351
Home equity	57	62
Automobile	0	0
Other consumer	157	195
Total nonaccrual loans:	$ 13,586	$ 13,295
Loans past due 90 days and still accruing:		
Commercial & industrial	$ 90	$ 23
Commercial mortgage	232	0
Commercial construction	0	0
Residential mortgage	542	45
Home equity	0	0
Automobile	0	13
Other consumer	962	826
Total loans past due 90 days and still accruing	$ 1,826	$ 907
Total nonperforming loans	$ 15,412	$ 14,202
Other real estate owned (OREO):		
Commercial real estate	$ 2,999	$ 2,923
Residential real estate	1,575	1,687
Total other real estate owned	$ 4,574	$ 4,610
Other nonperforming assets:		
Other assets owned	$ 0	$ 0
Asset backed security	0	0
Total other nonperforming assets	0	0
Total nonperforming assets	$ 19,986	$ 18,812
Restructured loans:		
Accruing loans	$ 4,207	$ 3,551
Non-accruing loans (included in nonaccrual loans above)	5,394	5,554
Total restructured loans	$ 9,601	$ 9,105

The above table indicates that nonperforming loans increased by $1.2 million during the three months ended March 31, 2014, which resulted primarily from the increase in loans past due 90 days and still accruing by $919 thousand to $1.8 million, up from $907 thousand at December 31, 2013. This increase is largely attributed to the $497 thousand increase in the residential mortgage category. In addition, non-accrual loans rose by $291 thousand, to $13.6 million, up from $13.3 million at December 31, 2013.

At March 31, 2014, the Bank's largest nonperforming loans consist of two commercial loan relationships in the amount of $4.9 million, both of which are located in Guam and secured by real estate. These loans were placed on non-accrual due to deficiencies in their cash flow to service the monthly loan payments and meet operating expenses. At this time, management believes that the allowance for loan losses is adequate to cover these loans; however, should property values deteriorate, additional write-downs or additional provisions may be necessary.

Analysis of Allowance for Loan Losses

The Allowance for Loans Losses was $12.5 million, or 1.39% of outstanding gross loans as of March 31, 2014, as compared to $12.1 million or 1.38% of outstanding gross loans at December 31, 2013.

Management maintains an allowance for loan losses to absorb estimated credit losses associated with the loan portfolio. The adequacy of the allowance is determined by management through ongoing quarterly loan quality assessments.

Management assesses the estimated credit losses inherent in the non-classified and classified portions of our loan portfolio by considering a number of factors or elements including:

- Management’s evaluation of the collectability of the loan portfolio;
- Credit concentrations;
- Historical loss experience in the loan portfolio;
- Levels of and trending in delinquency, classified assets, non –performing and impaired loans;

- Effects of changes in underwriting standards and other changes in lending policies, procedures and practices;
- Experience, ability, and depth of lending management and other relevant staff;
- Local, regional, and national trends and conditions including industry-specific conditions;
- Effect of changes in credit concentration; and
- External factors such as competition, legal and regulatory conditions, as well as typhoon and other natural disasters.

Management calculates the allowance for the classified loan portfolio, non-classified loans and a homogeneous pool of loans based on an appropriate percentage loss factor that is calculated based on the above noted factors and trends. Management normally writes down impaired loans after determining the loans' credit and collateral fair value. Our analysis of the adequacy of the allowance incorporates the provisions made for our non-classified loans, classified loans, and homogeneous pool of loans.

While management believes it uses the best information available for calculating the allowance, the results of operation could be significantly affected if circumstances differ substantially from the assumptions used in determining the allowance. The current qualitative and quantitative factors used to calculate the allowance are inherently subjective. The estimates and assumptions are subject to changes in economic and regulatory guidelines, and other circumstances over which management has no control. The allowance may prove in the future to be insufficient to cover all of the losses the Bank may incur and it may be necessary to increase the allowance from time to time as a result of monitoring the adequacy of the allowance for loan losses.

The following table summarizes the changes in our allowance for loan losses.

(dollars in thousands)	Commercial	Residential Mortgages	Consumer	Total
Three Months Ended March 31, 2014				
Allowance for loan losses:				
Balance at beginning of quarter	$ 5,987	$ 922	$ 5,168	$ 12,077
Charge offs	(158)	(18)	(792)	(968)
Recoveries	155	2	292	449
Provision	265	(211)	846	900
Balance at end of quarter	$ 6,249	$ 695	$ 5,514	$ 12,458
Allowance balance at March 31, 2014, related to:				
Loans individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0
Loans collectively evaluated for impairment	$ 6,249	$ 695	$ 5,514	$ 12,458
Loan balances at March 31, 2014:				
Loans individually evaluated for impairment	9,970	7,666	157	17,793
Loans collectively evaluated for impairment	572,892	143,145	163,280	879,317
Total	$ 582,862	$150,811	$163,437	$897,110
At December 31, 2013				
Allowance for loan losses:				
Loans individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0
Loans collectively evaluated for impairment	$ 5,987	$ 922	$ 5,168	$ 12,077
Loan balances at December 31, 2013:				
Loans individually evaluated for impairment	$ 10,239	$ 6,412	$ 195	$ 16,846
Loans collectively evaluated for impairment	554,276	147,384	156,667	858,327
Total	$ 564,515	$153,796	$156,862	$875,173

Total Cash and Cash Equivalents

Total cash and cash equivalents were $141.0 million and $96.6 million at March 31, 2014, and December 31, 2013, respectively. This balance, which is comprised of cash and due from bank balances, federal funds sold and interest-bearing deposits that we maintain at other financial institutions (including the Federal Reserve Bank of San Francisco) will vary depending on daily cash settlement activities, the amount of highly liquid assets needed based on known events such as the repayment of borrowings, and actual cash on hand in the Bank's branches. The increase in the balance during the period was primarily due to an increase of $118.9 million in total deposits, supplemented by a $1.6 million increase in shareholders' equity, partially offset by a $55.2 million increase in investment securities and a $21.6 million increase in net loans.

The following table sets forth the composition of our cash and cash equivalent balances at March 31, 2014, and December 31, 2013:

(dollars in thousands)	March 31, 2014	December 31, 2013	Variance to December 31
Cash and due from banks	$ 21,579	$ 27,142	$ (5,563)
Federal funds sold	5,000	5,000	0
Interest-bearing deposits with financial institutions	114,382	64,441	49,941
Total cash and cash equivalents	$140,961	$ 96,583	$ 44,378

Investment Securities

The Bank manages its securities portfolio to provide a source of both liquidity and earnings. The Bank has an Asset/Liability Committee (ALCO) that develops current investment policies based on its subsidiary Bank's operating needs and market circumstances. The Bank's investment policy is formally reviewed and approved annually by the Board of Directors, and the Asset/Liability Committee is responsible for reporting and monitoring compliance with the investment policy. Investment portfolio reports are provided to the Board of Directors on a monthly basis.

At March 31, 2014, the carrying value of the investment securities portfolio totaled $327.0 million, which represents a $55.2 million increase from the portfolio balance of $271.8 million at December 31, 2013. The table below sets forth the composition of our investment securities portfolio at March 31, 2014, and December 31, 2013:

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, follows:

	March 31, 2014			
	Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Securities Available for Sale				
U.S. government agency and sponsored enterprise (GSE) debt securities	$ 25,310	$ (14)	$ 0	$ 25,296
U.S. government agency pool securities	51,674	(698)	118	51,094
U.S. government agency or GSE mortgage-backed securities	169,856	(1,484)	248	168,620
Total	$246,840	$ (2,196)	$ 366	$245,010
Securities Held to Maturity				
U.S. government agency and sponsored enterprise (GSE) debt securities	$ 27,959	$ (35)	$ 176	$ 28,100
U.S. government agency pool securities	1,607	(12)	25	1,620
U.S. government agency or GSE mortgage-backed securities	52,399	(409)	1,012	53,002
Total	$ 81,965	$ (456)	$ 1,213	$ 82,722

	December 31, 2013			
	Amortized Cost	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
Securities Available for Sale				
U.S. government agency pool securities	$ 54,733	$ 122	$ (563)	$ 54,292
U.S. government agency or GSE mortgage-backed securities	130,411	112	(1,983)	128,540
Total	$185,144	$ 234	$ (2,546)	$182,832
Securities Held to Maturity				
U.S. government agency and sponsored enterprise (GSE) debt securities	$ 32,824	$ 0	$ (515)	$ 32,309
U.S. government agency pool securities	1,641	24	(12)	1,653
U.S. government agency or GSE mortgage-backed securities	54,524	920	(586)	54,858
Total	$ 88,989	$ 944	$ (1,113)	$ 88,820

At March 31, 2014, and December 31, 2013, investment securities with a carrying value of $190.2 million and $170.5 million, respectively, were pledged to secure various government deposits and other public requirements.

The amortized cost and fair value of investment securities by contractual maturity at March 31, 2014, and December 31, 2013, follows:

	March 31, 2014			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after one but within five years	$ 0	$ 0	$ 0	$ 0
Due after five years	25,310	25,296	27,959	28,100
U.S. Government agency pool securities	51,674	51,094	1,607	1,620
Mortgage-backed securities	169,856	168,620	52,399	53,002
Total	$ 246,840	$245,010	$ 81,965	$ 82,722

	December 31, 2013			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after one but within five years	$ 0	$ 0	$ 0	$ 0
Due after five years	0	0	32,824	32,309
U.S. Government agency pool securities	54,733	54,292	1,641	1,653
Mortgage-backed securities	130,411	128,540	54,524	54,858
Total	$ 185,144	$182,832	$ 88,989	$ 88,820

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position at March 31, 2014, and December 31, 2013.

	March 31, 2014					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Securities Available for Sale						
U.S. government agency and sponsored enterprise (GSE) debt securities	$ (14)	$ 5,986	$ 0	$ 0	$ (14)	$ 5,986
U.S. government agency pool securities	(233)	11,479	(465)	30,051	(698)	41,530
U.S. government agency or GSE mortgage-backed securities	(1,432)	112,188	(52)	9,891	(1,484)	122,079
Total	$ (1,679)	$ 129,653	$ (517)	$ 39,942	$ (2,196)	$169,595
Securities Held to Maturity						
U.S. government agency and sponsored enterprise (GSE) debt securities	$ (35)	$ 4,643	$ 0	$ 0	$ (35)	$ 4,643
U.S. government agency pool securities	(4)	169	(8)	415	(12)	584
U.S. government agency or GSE mortgage-backed securities	(239)	10,925	(170)	7,433	(409)	18,358
Total	$ (278)	$ 15,737	$ (178)	$ 7,848	$ (456)	$ 23,585

	December 31, 2013					
	Less Than Twelve Months		More Than Twelve Months		Total	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
Securities Available for Sale						
U.S. government agency pool securities	$ (505)	$ 42,298	$ (58)	$ 4,843	$ (563)	$ 47,141
U.S. government agency or GSE mortgage-backed securities	(1,957)	108,637	(26)	5,606	(1,983)	114,243
	$ (2,462)	$ 150,935	$ (84)	$ 10,449	$ (2,546)	$161,384
Securities Held to Maturity						
U.S. government agency and sponsored enterprise (GSE) debt securities	$ (515)	$ 32,309	$ 0	$ 0	$ (515)	$ 32,309
U.S. government agency pool securities	(8)	304	(4)	284	(12)	588
U.S. government agency or GSE mortgage-backed securities	(586)	18,770	0	0	(586)	18,770
Total	$ (1,109)	$ 51,383	$ (4)	$ 284	$ (1,113)	$ 51,667

The Company does not believe that any of the investment securities that were in an unrealized loss position as of March 31, 2014, which comprised a total of 58 securities, were other-than-temporarily impaired. Specifically, the 58 securities are comprised of the following: 18 Small Business Administration (SBA) Pool securities, 21 mortgage-backed securities issued by the Government National Mortgage Association (GNMA), 14 mortgage-backed securities and 1 U.S. Government Agency Bond issued by the Federal National Mortgage Association (FNMA) , 3 mortgage-backed securities issued by the Federal Home Loan Corporation (FHLMC), and 1 U.S. Government Agency Bond issued by the Federal Home Loan Bank (FHLB).

Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to changes in the credit quality of the investment securities. The Company does not intend to sell the investment securities that were in an unrealized loss position and it is not likely that the Company will be required to sell the investment securities before recovery of their amortized cost bases, which may be at maturity.

Deposits

At March 31, 2014, total deposits increased by $118.9 million to $1.30 billion as compared to $1.18 billion in total deposits at December 31, 2013. Interest-bearing deposits increased by $102.0 million to $964.0 million at March 31, 2014, up from $862.0 million at December 31, 2013, while non-interest bearing deposits increased by $16.9 million to $338.4 million at March 31, 2014, up from $321.4 million at December 31, 2013. The 10.0% increase in total deposits was primarily due to improvements in general economic conditions and competitive factors, as well as the withdrawal of one financial institution from the depository services industry in Guam.

The following table sets forth the composition of our interest-bearing deposit portfolio with the average balances and average interest rates for the three months ending March 31, 2014, and March 31, 2013, respectively:

	Three months ending			
	March 31, 2014		March 31, 2013	
(dollars in thousands)	Average balance	Average rate	Average balance	Average rate
Interest-bearing deposits:				
Interest-bearing checking accounts	$129,872	0.11%	$116,455	0.23%
Money market and savings accounts	754,158	0.58%	692,503	0.71%
Certificates of deposit	50,361	0.39%	55,865	0.39%
Total interest-bearing deposits	934,391	0.50%	864,823	0.62%

As mentioned earlier, the Bank has expanded its operations and its branch network since it first opened in 1972, first in Guam, then in the other islands of our region and in San Francisco, California. As time has passed, the Bank has gathered market share in each of the islands. In recent years, in order to diversify its geographic market, the Bank has increased its focus on growth in the San Francisco area. The following table provides figures for deposits in the Bank's administrative regions for the years ending December 31, 2012 and 2013, and the quarter ending March 31, 2014:

	At December 31,		At March 31,
	2012	2013	2014
Guam	$ 640,893	$ 645,056	$ 750,798
Commonwealth of the Northern Mariana Islands	$ 180,220	$ 207,402	$ 221,434
The Freely Associated States of Micronesia *	$ 212,722	$ 254,900	$ 251,786
California	$ 68,705	$ 76,087	$ 78,362
Total	$1,102,540	$1,183,445	$1,302,380

* The Freely Associated States are comprised of the Federated States of Micronesia (Chuuk, Kosrae, Pohnpei and Yap), the Republic of Palau and the Republic of the Marshall Islands.

During the first quarter of 2014, the Bank's deposits increased by $118.9 million, or 10.0%, while in the full year of 2013, deposits increased by a total of $80.9 million. Our branches in Guam accounted for $105.7 million, or 88.9% of the total increase in deposits, while our CNMI branches provided an additional $14.0 million. Our California region deposits continued to grow, contributing an additional $2.3 million, but our deposits in the Freely Associated States decreased modestly, by $3.1 million, or 1.2%. The substantial growth in Guam deposits is partially due to generally improving economic conditions, but also because of the withdrawal of what was previously the fourth-largest depository from the market.

Borrowed Funds

The Bank has a variety of sources from which it may obtain secondary funding. These sources include, among others, the Federal Reserve Bank of San Francisco, the Federal Home Loan Bank-Seattle, and credit lines established with our correspondent banks. Borrowings are obtained for a variety of reasons which include, but are not limited to, funding loan growth, the purchase of investments in the absence of core deposits, and to provide additional liquidity to meet the demands of depositors.

At March 31, 2014, and December 31, 2013, the Company had no short-term borrowings.

Liquidity

We actively manage our liquidity to ensure that sufficient funds are available to meet our needs for cash, including cash needed to fund new loans and to accommodate deposit withdrawals by our customers. We project future sources and uses of funds, and maintain additional liquid funds for unanticipated events. Our primary sources of cash include cash we have in deposits at other financial

institutions, the repayment of loans, proceeds from the sale or maturity of investment securities, and increases in deposits. The primary uses of cash include funding new loans and making advances on existing lines of credit, purchasing investments, funding new residential mortgage loans, funding deposit withdrawals, and paying operating expenses. We maintain funds in overnight Federal Funds and other short-term investments to provide for short-term liquidity needs. We also have established, for contingency funding purposes, credit lines with the Federal Reserve Bank of San Francisco, the Federal Home Loan Bank-Seattle, and correspondent commercial banks in the U.S.

At March 31, 2014, our liquid assets, which include cash and due from banks, federal funds sold, interest-earning deposits with financial institutions, and investment securities available for sale totaled $386.0 million, up $106.6 million from $279.4 million at December 31, 2013. This increase is comprised entirely of $49.9 million in additional interest-bearing deposits in banks and the increase of $62.2 million in available for sale securities, offset by a $5.6 million decrease in cash and due from banks.

Contractual Obligations

The Bank utilizes facilities, equipment and land under various operating leases with terms, including renewal options, ranging from 1 to 99 years. Some of these leases include scheduled rent increases. The total amount of the rent is being debited to expense on the straight-line method over the lease terms in accordance with ASC Topic 840 *"Leases"*. The Bank has recorded a deferred obligation of $775 thousand and $760 thousand as of March 31, 2014, and December 31, 2013, respectively, which has been included within other liabilities to reflect the excess of rent expense over cash paid on the leases.

At March 31, 2014, annual lease commitments under the above non-cancelable operating leases were as follows:

Period ending March 31,	*(dollars in thousands)*
2014	$ 1,714
2015	1,503
2016	1,167
2017	879
2018	674
Thereafter	17,785
Total	$ 23,722

The Bank leases certain facilities from two separate entities in which two of its directors have separate ownership interests. Lease payments made to these entities during the three months ended March 31, 2014, and the twelve months ended December 31, 2013, approximated $93 thousand and $370 thousand, respectively.

Additionally, the Bank leases office space to third parties, with original lease terms ranging from 3 to 5 years with option periods ranging up to 15 years. At March 31, 2014, minimum future rents to be received under non-cancelable operating sublease agreements were $196, $70, and $52 thousand for the periods ending December 31, 2014, 2015 and, 2016, respectively.

A summary of rental activities for the three-month periods ended March 31, 2014 and 2013, is as follows:

(dollars in thousands)	March 31, 2014	March 31, 2013
Rental expense	$ 604	$ 583
Less: sublease rentals	68	67
Net rental expense	$ 536	$ 516

Off Balance Sheet Arrangements

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount reflected in the condensed consolidated financial statements.

The Bank's exposure to credit loss, in the event of nonperformance by the other parties to financial instruments for loan commitments and letters of credit, is represented by the contractual amount of these instruments. The Bank follows essentially the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

A summary of financial instruments with off-balance-sheet risk at March 31, 2014, and December 31, 2013, is as follows:

(dollars in thousands)	March 31, 2014	December 31, 2013
Commitments to extend credit	$ 162,426	$ 121,618
Letters of credit:		
Standby letters of credit	$ 47,930	$ 47,543
Other letters of credit	4,692	2,582
Total letters of credit	$ 52,622	$ 50,125

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for certain lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The

amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party or the shipment of merchandise from a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Almost all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is effectively the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments.

The Bank considers its standby and other letters of credit to be guarantees. At March 31, 2014, the maximum undiscounted future payments that the Bank could be required to make was $52.6 million. All of these arrangements mature within one year. The Bank generally has recourse to recover from the customer any amounts paid under these guarantees. Most of the guarantees are fully collateralized; however, several that are extended to the Bank's most creditworthy customers are unsecured. The Bank had not recorded any liabilities associated with these guarantees at March 31, 2014.

Mortgage loans serviced for others are not included in the accompanying condensed consolidated statements of condition. The unpaid principal balances of mortgage loans serviced for others were $211.5 million and $208.6 million at March 31, 2014, and December 31, 2013, respectively. On March 31, 2014, and December 31, 2013, the Bank recorded mortgage servicing rights at their fair value of $1.4 million and $1.4 million, respectively.

Capital Resources

The Bank is subject to various regulatory capital requirements administered by the United States federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's condensed consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes that, as of March 31, 2014, and December 31, 2013, the Bank met all capital adequacy requirements to which it is subject.

As of March 31, 2014, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There have been no conditions or events since the FDIC notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of March 31, 2014, and December 31, 2013, are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At March 31, 2014:						
Total capital (to Risk Weighted Assets)	$109,668	12.28%	$ 71,439	8.00%	$ 89,299	10.00%
Tier 1 capital (to Risk Weighted Assets)	$ 98,633	11.18%	$ 35,278	4.00%	$ 52,917	6.00%
Tier 1 capital (to Average Assets)	$ 98,633	7.18%	$ 54,952	4.00%	$ 68,690	5.00%
At December 31, 2013:						
Total capital (to Risk Weighted Assets)	$108,238	12.53%	$ 69,114	8.00%	$ 86,392	10.00%
Tier 1 capital (to Risk Weighted Assets)	$ 97,563	11.43%	$ 34,130	4.00%	$ 51,195	6.00%
Tier 1 capital (to Average Assets)	$ 97,563	7.60%	$ 51,320	4.00%	$ 64,151	5.00%

Contingency Planning and Cybersecurity

The services provided by banks are crucial to the continuing performance of the economy, so it is very important that banks are able to conduct business as usual on an ongoing basis. In light of this, the Bank has developed a comprehensive business continuity plan to address whatever disruptions may directly affect customers or change internal processes, whether caused by man-made or natural events. Training in the plan components is conducted annually, and risk-based testing of the major processes and procedures within the Bank occur on a regular basis. In modern banking, technology has taken on an increasingly important role, and the Bank also has a technology recovery component incorporated into the business continuity plan that provides specific, detailed procedures for recovering quickly from any technology failure. The technology recovery procedures are actively tested, and are also implemented from time to time. The recovery time objectives for all major technological processes range from two hours to 16 hours, enabling the Bank to maintain or resume operations with a minimum impact on its customers. As the results of testing are analyzed and as technology continues to advance, improvements are made in the Bank's processes and procedures as the plan evolves.

The rapid advances in computing and telecommunications technology over the past several decades have brought with them increasingly sophisticated methods of delivering financial services through electronic channels. Along with these advances, though, have come risks regarding the integrity and privacy of data, and these risks apply to banking, perhaps more than any other industry, falling into the general classification of cybersecurity. The Bank has made substantial investments in multiple systems to ensure both the integrity of its data and the protection of the privacy of its customers' personal financial and identity information. While it is not possible for anyone to give an absolute guarantee that data will not be compromised, the Bank is confident that its systems provide a reasonable assurance that the financial and personal data that it holds are secure.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, in connection with the filing of this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2014. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2014, the Company’s disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s Rules and forms and is accumulated and communicated to management, including our Chief Executive and Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit No.	Exhibit
31.01	Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley At of 2002
31.02	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.01	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Unaudited Condensed Consolidated Statements of Condition as of March 31, 2014 and December 31, 2013, (ii) Unaudited Condensed Consolidated Statements of Income for the three months ended March 31, 2014 and 2013, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2014 and 2013, (iv) Unaudited Condensed Consolidated Statements of Stockholders' Equity as of March 31, 2014 and 2013, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013 and (vi) Notes to Unaudited Condensed Consolidated Financial Statements

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, BankGuam Holding Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANKGUAM HOLDING COMPANY

Date: May 12, 2014

By: /s/ LOURDES A. LEON GUERRERO
Lourdes A. Leon Guerrero,
President and Chief Executive Officer

Date: May 12, 2014

By: /s/ FRANCISCO M. ATALIG
Francisco M. Atalig,
Senior Vice President and Chief Financial Officer

Exhibit 31.01

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lourdes A. Leon Guerrero, certify that:

1. I have reviewed this Quarterly Report on 10-Q of BankGuam Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 12, 2014

/s/ LOURDES A. LEON GUERRERO
Lourdes A. Leon Guerrero
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.02

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Francisco M. Atalig, certify that:

1. I have reviewed this Quarterly Report on 10-Q of BankGuam Holding Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 12, 2014

/s/ FRANCISCO M. ATALIG
Francisco M. Atalig
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.01

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

The certification set forth below is being submitted in connection with the report on Form 10-Q of BankGuam Holding Company for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Lourdes A. Leon Guerrero, the President and Chief Executive Officer of BankGuam Holding Company, and Francisco M. Atalig, the Senior Vice President and Chief Financial Officer of BankGuam Holding Company, each certifies that, to the best of his or her knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of BankGuam Holding Company.

Date: May 12, 2014

By: /s/ LOURDES A. LEON GUERRERO
Lourdes A. Leon Guerrero
President and Chief Executive Officer

Date: May 12, 2014

By: /s/ FRANCISCO M. ATALIG
Francisco M. Atalig
Senior Vice President and Chief Financial Officer